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DIPLOMA PLC

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FOR IMMEDIATE RELEASE

20 November 2017

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

"Strong Results with Double-Digit Growth in Revenue and Earnings"

	Audited 2017 £m	Audited 2016 £m	
Revenue	451.9	382.6	+18%
Adjusted operating profit(1)	78.2	65.7	+19%
Adjusted operating margin(1)	17.3%	17.2%	+10bps
Adjusted profit before tax(1),(2)	77.5	64.9	+19%
Profit before tax	66.8	54.0	+24%
Profit for the year	48.2	39.1	+23%
Free cash flow(3)	55.7	59.0	-6%
	Pence	Pence	
Adjusted earnings per share(1),(2)	49.8	41.9	+19%
Basic earnings per share	42.0	33.9	+24%
Total dividend per share	23.0	20.0	+15%

(1) Before acquisition related charges.
(2) Before fair value remeasurement and gain on disposal of assets.
(3) Before cash payments on acquisitions and dividends.

Financial Highlights

- Revenue and adjusted operating profit increased by 18% and 19%, respectively.
- Underlying revenues increased by 7%; currency movement increased revenues by 9% and businesses acquired made a net contribution of 2%.
- Adjusted operating margins improved slightly to 17.3% as transactional currency effects eased in the Healthcare businesses and margins improved in the acquired businesses.
- Adjusted profit before tax and adjusted EPS both increased by 19% to £77.5m and to 49.8p, respectively.
- Strong free cash flow of £55.7m; cash funds of £22.3m at end of September.
- Total dividend increased by 15% to 23.0p per share reflecting strong financial position and confidence in Group's growth prospects.

Operational Highlights

- In Life Sciences, underlying revenues increased by 4%, with strong capital revenues as new technology was introduced and delayed projects were reactivated in the laboratory diagnostic sectors.

- In Seals, underlying revenues increased by 4% reflecting an improving trend in industrial activity in North America. In the International Seals businesses, strong growth in the UK and Scandinavia was offset by more challenging conditions in Switzerland, Russia and Australia.

- In Controls, underlying revenues increased by 14%, driven by new project activity, recovery in some end user markets and targeted investment in sales resources.

- Acquisition expenditure of £20.1m this year; ca. £90m invested over three years in acquiring value enhancing businesses. Group's return on adjusted trading capital ("ROATCE") improved to 24%.

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

"Diploma reported another strong performance in 2017, delivering strong double-digit growth in revenue and earnings. All of the Group's Sectors contributed to this growth with a particularly strong performance from Controls.

The Group's performance in 2017 provides confidence in the Group's prospects for solid underlying growth in the year ahead, which we aim to enhance by unlocking value enhancing acquisition opportunities. With a proven business model, broad geographic spread of businesses, robust balance sheet and consistently strong free cash flow, the Board is confident that further progress will be made in the next financial year."

There will be a presentation of the results to analysts and investors at 9.00am this morning at Pewterers' Hall, Oat Lane, City of London, EC2V 7DE. 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, free cash flow and ROATCE. All references in this Preliminary Announcement ("Announcement") to "underlying" revenues or operating profits refer to reported results on a constant currency basis and before any contribution from acquired or disposed businesses. 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 Announcement.

- Certain statements contained in this Announcement constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievements of Diploma PLC, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such statements. Such risks, uncertainties and other factors include, among others, exchange rates, general economic conditions and the business environment.

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. 1,700 employees and its principal operating businesses are located in the UK, Northern Europe, North America and Australia.

Over the last ten years, the Group has grown adjusted earnings per share at an average of ca. 14% p.a. through a combination of underlying growth and acquisitions. Diploma is a member of the FTSE 250 with a market capitalisation of ca. £1.2bn.

Further information on Diploma PLC can be found at www.diplomaplc.com

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PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS
FOR YEAR ENDED 30 SEPTEMBER 2017

CHAIRMAN'S STATEMENT

The Group reported another strong performance in 2017 and delivered robust underlying growth in more confident global economies. The Board remains focused on executing the Group's established strategy which is designed to deliver strong growth in earnings and shareholder value over the economic cycle.

The Group has a long track record of consistent delivery against its key performance metrics by compounding stable "GDP plus" underlying growth with carefully selected, value enhancing acquisitions, funded by the Group's free cash flow. This strategy has been successfully designed and executed under the outstanding leadership of Bruce Thompson since he became CEO of Diploma PLC in 1996. Over the last 15 years, since emerging from a major restructuring of the Group led by Bruce, the Group has delivered strong double-digit growth in earnings, dividends and share price and has grown market capitalisation from ca. £60m to ca. £1.2bn today, without any new equity having been issued.

In September of this year, the Board received notice from Bruce of his intention to retire as CEO before the end of 30 September 2018. This notice period ensures sufficient time to complete a thorough search process and a smooth transition of responsibilities. Bruce will be leaving the Group with a clearly defined and sustainable strategy, with a substantial runway for future growth and an experienced senior management team. We all wish him a long, healthy and well-earned retirement.

Results

Group revenues increased in 2017 by 18% to £451.9m (2016: £382.6m), with the Group's results again boosted by currency effects from translating the results of the overseas businesses, following the substantial depreciation in UK sterling. After adjusting for the contribution from acquisitions completed both this year and last year, net of a small disposal and for these currency effects on translation, Group revenues increased by 7% on an underlying basis. The Controls businesses delivered robust underlying revenue growth of ca. 14% and both the Life Sciences and Seals businesses reported a 4% growth in underlying revenues.

Adjusted operating profit increased by 19% to £78.2m (2016: £65.7m) reflecting the strong growth in revenues and a small increase of 10bps in adjusted operating margins to 17.3% (2016: 17.2%). Adjusted profit before tax increased by 19% to £77.5m (2016: £64.9m) and adjusted earnings per share ("EPS") also increased by 19% to 49.8p (2016: 41.9p).

The Group's free cash flow remained robust at £55.7m (2016: £59.0m) as working capital increased by £4.0m to support the stronger trading environment across the Group. Last year's free cash flow included an inflow of £6.3m from reduced working capital and £4.6m of cash realised on the sale of assets. Capital expenditure of £3.3m (2016: £3.7m) remained at a similar level to last year.

The Group has invested ca. £90m over three years in acquiring value enhancing businesses. However, expenditure on acquisitions slowed this year to £20.1m (2016: £32.7m) as some vendors postponed their exit plans in the face of a more favourable macroeconomic environment. There are still a number of good quality businesses in our acquisition pipeline which we are confident of completing when the vendors are ready to move forward.

The Group's balance sheet remains robust with cash funds at 30 September 2017 of £22.3m (2016: £10.6m), after investing £20.1m in acquisitions and making distributions to shareholders of £23.5m (2016: £21.0m). The Group also has renewed committed bank facilities of £30m with an accordion option to extend these facilities up to £60m.

Dividends

The combination of strong results and free cash flow, supported by a robust balance sheet has led the Board to recommend an increase in the final dividend of 16% to 16.0p per share (2016: 13.8p). Subject to shareholder approval at the Annual General Meeting ("AGM"), this dividend will be paid on 24 January 2018 to shareholders on the register at 1 December 2017.

The total dividend per share for the year will be 23.0p (2016: 20.0p) which represents a 15% increase on 2016. With underlying adjusted earnings increasing by 19%, the level of dividend cover increases slightly to 2.2 times on an adjusted EPS basis, from 2.1 times in recent years.

Governance

The Board's Committees, led by the non-Executive Directors, have had a productive year. Anne Thorburn led the Audit Committee through an audit tender process which in September resulted in a proposal to appoint PricewaterhouseCoopers LLP as Company and Group auditor from next year. Andy Smith has also led the Remuneration Committee through a thorough review of the Company's Remuneration Policy, in advance of the triennial vote by shareholders at the AGM on 17 January 2018. I have worked closely with Charles Packshaw as Senior Independent Director and with the Nomination Committee to commence a search for a new CEO to lead the Group, following the intended retirement of Bruce Thompson later in 2018.

Employees

Our employees remain our most important asset and their hard work continues to be a driving force behind our consistent and strong performance. Diploma is very much a people business and success is always a team effort. I wish to thank all of our employees for their support and contribution to the success of the Group this year.

Outlook

Diploma reported another strong performance in 2017, delivering strong double-digit growth in revenue and earnings. All of the Group's Sectors contributed to this growth with a particularly strong performance from Controls.

The Group's performance in 2017 provides confidence in the Group's prospects for solid underlying growth in the year ahead, which we aim to enhance by unlocking value enhancing acquisition opportunities. With a proven business model, broad geographic spread of businesses, robust balance sheet and consistently strong free cash flow, the Board is confident that further progress will be made in the next financial year.

CHIEF EXECUTIVE'S REVIEW

In 2017, the Group delivered strong double-digit growth in revenue and earnings with robust underlying growth, a modest net contribution from acquisitions and further benefiting from the strong tailwind from the depreciation in UK sterling.

The Group's reported revenues increased by 18%, with currency movements increasing revenues by 9% and acquisitions contributing a further 2% to the revenue growth, net of a small prior year disposal. On an underlying basis, after adjusting for acquisitions and for currency effects on translation, Group revenues increased by 7%.

Group adjusted operating margins improved by 10bps to 17.3%, compared with 17.2% in the prior full year and the first half of the current year. Management gross margins have reduced overall by 60bps with margin pressures in several businesses from a combination of the impact on product costs from currency movements and increases in other margin support costs. These pressures have been partly mitigated by the stronger gross margins in recent acquisitions and transactional currency pressures in the Healthcare businesses have eased during the year. Operating costs as a percentage of revenue have reduced by 70bps with improved operating leverage from the increase in revenues and generally tight control of operating costs.

Working capital as a percentage of revenue was managed down through the year to 15.0%, although the Group's free cash flow reduced by 6% to £55.7m, reflecting the absence of prior year proceeds from one-off property sales and the divestment of the Medivators business.

Sector performance

In Life Sciences, underlying revenues increased by 4% after adjusting for currency movements, the acquisition of Abacus and the prior year disposal of the Medivators business. The Healthcare businesses benefited from stronger capital revenues as new technology was introduced and delayed projects were reactivated in the laboratory diagnostic sector. The Environmental businesses delivered steady growth in instrumentation sales and increasing service contract revenues.

In Seals, underlying revenues increased by 4% after adjusting for currency movements and the acquisitions of PSP and Edco. In North America, the improving trend in industrial activity seen in the second quarter, following the US election, strengthened further as the year progressed. In the International Seals businesses, strong growth in the UK and Scandinavia was offset by more challenging market conditions in Switzerland, Russia and Australia.

In Controls, underlying revenues increased by 14% after adjusting for currency movements and the prior year acquisitions of Cablecraft and Ascome. The Specialty Fasteners business increased revenues strongly, driven principally by a ramp-up in demand from customers in the Civil Aerospace sector. The Interconnect and Fluid Controls businesses also delivered good growth benefiting from increased project work and targeted investment in sales resources.

Acquisitions and disposals

Over the last three years, a total of ca. £90m has been invested in acquisitions which contributed ca. 16% of 2017 Group revenues.

During 2017, total acquisition spend was ca. £20m, of which ca. £15m was invested in the acquisition of Abacus, a long established supplier of diagnostics instrumentation and consumables to the Pathology and Life Sciences sectors in Australia and New Zealand. Abacus adds critical mass to our existing Healthcare businesses in the region and opens up new growth opportunities.

In addition, two smaller bolt-on acquisitions were completed in the Seals Sector during the year – PSP in the US and Edco in the UK. After the year end, a small acquisition was completed in the Controls Sector of Coast Fabrication Inc ("Coast"), a US specialty fastener distributor.

Group strategy

The Group's "compounding" strategy is designed to generate strong growth in earnings and shareholder value over the business cycle, while building larger, broader-based businesses in the three Group Sectors of Life Sciences, Seals and Controls.

The businesses target stable "GDP plus" underlying revenue growth over the business cycle with sustainable attractive margins and then convert the profit into strong free cash flow by tightly managing working capital and focused capital investments. The free cash flow generated then funds healthy growing dividends and selective value enhancing acquisitions which accelerate growth in revenues and profit to double-digit levels. The strategy consistently delivers a return in excess of 20% pre-tax on total capital invested and steadily increasing shareholder value.

Business model and KPIs

Stable and resilient "GDP plus" underlying 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. These essential values ensure that decisions are made close to the customer and that the businesses are agile and responsive to changes in the market and the competitive environment.

The key performance indicators ("KPIs") we use to measure the success of the business model relate to recurring income and stable underlying revenue growth, sustainable and attractive margins and organisational health. This year, underlying revenue growth, after adjusting for currency movements and acquisitions, has been a robust 7% with the growth rate strengthening in the second half of the year. Over five years, the average underlying revenue growth has been 5% p.a. which meets the Group's target of "GDP plus" growth.

Adjusted operating margins improved this year by 10bps to 17.3% of revenue, as transactional currency pressures eased during the year in the Healthcare businesses and improved operating leverage with tight control of operating costs have offset other pressures on gross margins. Over five years the average adjusted operating margin has been ca. 18% against the Group's medium term target of 18–19%.

The agility and responsiveness of the organisation is more difficult to measure directly, but non-financial KPIs can give an indication of the organisational health. The number of working days lost to sickness has consistently been only ca. 1% a year and over the last five years, the average length of service for all employees has been ca. 6.5 years (ca. 11 years for the senior management cadre).

Growth strategy and KPIs

Overall growth is accelerated from underlying "GDP plus" levels to the corporate target of double-digit growth, through carefully selected, value enhancing acquisitions which fit the business model and offer entry into new but related strategic markets.

Acquisitions are not made just to add revenue and profit, but rather to bring into the Group successful businesses which have growth potential, capable management and a good track record of profitable growth and cash generation. As part of our Acquire, Build, Grow strategy, we invest in the businesses post-acquisition to build a firm foundation to allow them to move to a new level of growth and improve operating margins. These acquisitions form a critical part of our Sector growth strategies and are designed to generate a pre-tax return on investment of at least 20% and hence support our Group objectives for return on total investment.

Again we measure the success of the growth strategy with KPIs, the first of which is acquisition spend. To achieve the Group's objective of strong double-digit growth, acquisition spend of at least £30m p.a. is targeted, though year-on-year spend will vary with the acquisition environment. This year, the Group invested ca. £20m in acquisitions, bringing the total over three years to ca. £90m. The acquisitions completed over the last three years have contributed ca. 16% of 2017 revenues.

Strong cash flow funds our growth strategy (and supports healthy, growing dividends) and tight management of working capital maximises the conversion of profit to cash flow. This year, working capital has been managed down to a record low of 15.0% of revenue, generating free cash flow of £55.7m and representing a conversion rate of 99% of adjusted post tax earnings. Over five years, the average working capital to revenue ratio has been 16-17% and average free cash flow has been £45m p.a. with an average conversion ratio of 98%.

The Group's return on total investment measure is the pre-tax return on adjusted trading capital employed, excluding net cash, but including all goodwill and acquired intangible assets ("ROATCE"). This is used to measure the overall performance of the Group and very importantly, our success in creating value for shareholders through our acquisition programme. Over the last five years, ROATCE has comfortably exceeded the 20% target and this year was 24.0%.

Executive Management Group

As the Group grows larger and becomes more broadly spread both geographically and operationally, it is important that we have in place a strong and broad based executive management team to drive the next stage of the Group's growth strategy.

The Executive Management Group ("EMG") was established in 2016, comprising the Executive Directors along with the executive managers who are responsible for the major business clusters and key Group functions. The EMG members are a combination of internally developed managers and experienced senior managers who have been recruited externally.

The EMG provides the opportunity for its members to broaden their perspective of the Group's activities in order to reinforce the key elements of the Group's culture and to identify best practices which are transferable across the Group. The EMG meets quarterly through a combination of full group meetings in London and sub-group meetings held in the major business locations.

The EMG provides the senior management bench strength to manage a growing and broadly spread Group while laying the groundwork for succession in key executive positions.

SECTOR DEVELOPMENTS

LIFE SCIENCES

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

	2017	2016	
Revenue	£125.9m	£109.9m	+15%
Adjusted operating profit	£23.3m	£19.6m	+19%
Adjusted operating margin	18.5%	17.8%	+70bps
Free cash flow	£17.0m	£19.0m	-11%

- Sector revenue growth of 15%; underlying growth of 4% after adjusting for currency, an acquisition and a disposal
- In Canada, DHG underlying revenues increased by 6% with strong capital revenues as projects were reactivated; AMT and Vantage combined into single Surgical Products business
- In Australia, underlying revenues increased by 4%; Abacus acquired in April 2017 and being integrated with DS to form a larger broader-based business
- TPD revenues broadly flat in Ireland and the UK with new suppliers and products replacing suppliers moving to direct supply model
- Environmental businesses increased underlying revenues by 3%, finishing the year with strong order books

Reported revenues of the Life Sciences businesses increased by 15% to £125.9m (2016: £109.9m). The acquisition of Abacus ALS ("Abacus"), acquired in April 2017, added £7.6m or 7% to Sector revenues, but this was offset by the prior year disposal of the Medivators business. Currency movements, on translation of the results from overseas businesses to UK sterling, contributed a further 11% to Sector revenues. After adjusting for currency, the acquisition and the disposal, underlying revenues increased by 4%.

Sector adjusted operating margins improved by 70bps benefiting from a combination of stronger gross margins in Abacus and from reduced operating costs following the consolidation of the AMT and Vantage business operations into one facility at the beginning of the year. Transactional currency pressures on the Healthcare businesses also eased towards the end of the year, following a number of years when gross margins were significantly impacted by the progressive depreciation of the Canadian and Australian dollars relative to the US dollar and Euro. Operating margins also strengthened in the Environmental businesses, with an increase in gross margins and with improved leverage from the increased revenues. Sector adjusted operating profits increased by 19% to £23.3m (2016: £19.6m).

The Life Sciences businesses invested £2.0m in new capital during the year (2016: £1.9m) of which £1.6m (2016: £0.9m) was spent on acquiring field equipment for both new placements in hospitals and laboratories and for loan equipment and demonstration models to support existing placements. The increase in spend on field equipment was largely driven by the launch of a new series of flexible endoscopes, together with the addition of a range of rigid endoscopes under a new supplier agreement. A further £0.3m was invested, in part on the AMT/Vantage facility consolidation and in part on the general IT infrastructure of the Life Sciences businesses. Free cash flow reduced to £17.0m (2016: £19.0m), reflecting the slightly higher working capital in the Healthcare businesses; although last year's free cash flow also included £2.2m received on the disposal of the Medivators business.

Healthcare

The DHG group of Healthcare businesses, which account for 84% of Life Sciences revenues, increased underlying revenues by 4% after adjusting for currency, the acquisition of Abacus and the disposal of the Medivators business.

In Canada, underlying revenues increased by 6% against the background of continuing budget pressures throughout the Provincial healthcare systems, but with strong capital revenues as new technology was introduced and delayed projects were reactivated in the diagnostic laboratory sector.

Somagen's core Clinical Diagnostics business in Canada delivered an increase of 10% in revenues, with steady growth in consumable and service revenues boosted by strong growth in capital revenues. Demand for diagnostic testing remained robust, particularly with the growth of cancer screening tests and related diagnostics and capital revenues increased strongly with new technology introduced in the areas of Allergy, Autoimmunity and Histology. Capital revenues also benefited from some relaxation in the policy of regional consolidation of diagnostic laboratories in Quebec despite the continued drive for cost savings and efficiencies within many public medical laboratories.

AMT and Vantage were combined into a single, more efficient Surgical and GI specialty medical device business in Canada following the disposal of the Medivators business in September last year. Warehousing, logistics and back office functions have been integrated within AMT's facility in Kitchener, which has provided good opportunities for operational leverage from the increased scale of the combined business. In its core electrosurgery business, AMT continued to face pricing pressures from the tender and evaluation processes introduced by shared service organisations and national group purchasing organisations ("GPOs"). These pricing pressures will continue to be a factor as the GPOs continue to consolidate in Canada. However, AMT was able to maintain revenues by increasing sales of specialised surgical instruments and devices used in laparoscopic and other minimally invasive surgical procedures.

Vantage, operating now as a division of AMT, increased revenues in its core GI/endoscopy product lines and successfully launched a new series of flexible endoscopes with significantly improved light imaging performance and higher reliability. Vantage also secured the exclusive distribution rights for a premium range of rigid and flexible endoscopes and surgical instrument sets, which give entry into the Urology and Gynaecology segments and provide further opportunities for growth in the Surgical products sector.

In Australia, the Healthcare sector in recent years has experienced similar healthcare budget pressures to Canada, but has the added capacity of private Healthcare spending to offset some of the economic constraints. Against this background, the BGS and DS businesses have increased revenues by 4% in local currency terms. BGS increased revenues by 8%, with smoke evacuation programmes in existing and new accounts continuing to be the principal driver to growth. DS also delivered modest revenue growth, with strong sales of Protein Electrophoresis consumables following a number of capital placements during the prior year.

In April 2017, DHG completed the acquisition of Abacus, a long established supplier of diagnostics instrumentation and consumables to the Pathology and Life Sciences sectors in Australia and New Zealand. Abacus supplies to the large private laboratories that dominate the Clinical Diagnostic services industry in the region as well as supplying direct to certain hospitals and to the regional laboratory service groups that support hospital testing in the various States. Abacus has particular strengths in Immunology and Biochemistry testing and also is developing a niche specialty Patient Simulation business in the Australian market.

Abacus has very complementary clinical diagnostics products to the DS business and these two businesses are now in the process of being integrated to form "abacus dx", a larger broader-based Clinical Diagnostics, Life Science and Patient Simulation business, supplying to both the public and private pathology laboratories and to research and educational institutions across Australasia.

The TPD business in Ireland and the UK reported revenues broadly flat in Euro terms, with business transacted in UK sterling (ca. 40% of revenues) impacted by the weaker currency. TPD continued to achieve steady growth in supplying clinical chemistry and serology products used to control quality in Clinical Diagnostics laboratories. TPD also delivered revenue growth in specialty medical devices used in digestive health and rapid microbial testing products used in industrial laboratories. However, revenues reduced in the water testing and interventional cardiology segments as certain suppliers moved from specialised distribution to a direct supply model. TPD is introducing a number of new suppliers and products to replace these revenues and it is broadening its service capability beyond diagnostic instrumentation to extend into the blood services sector. TPD has also established a new Surgical Products division to bring to market the electrosurgical and smoke evacuation products similarly supplied by AMT and BGS in Canada and Australia.

Environmental

The a1-group of Environmental businesses in Europe, which account for 16% of Life Sciences revenues, saw revenues increase by 9% in UK sterling terms and 3% growth in constant currency terms.

The a1-envirosciences business based in Germany increased revenues by 3% in Euro terms against a strong prior year comparative, which had benefited from a large mercury detector order. Revenue from high-end trace and elemental analysers used in the Environmental and Petrochemical industries delivered good growth, with the second half of the year being particularly strong in the UK and the Benelux region. Service revenue continued to grow with the larger installed base and with increasing demand from the larger customers for faster response times. Demand for containment enclosures for the safe weighing of hazardous materials remains robust.

The a1-CBISS business based in the UK, increased revenues by 2% with continued growth in the installation of continuous emissions monitoring systems ("CEMS") and increased service contract revenues from CEMS projects delivered in the last 18 months. The sector remains buoyant with new Energy from Waste ("EFW") plants playing an important role in reducing landfill waste. The gas detection sector has started to see increased demand from Oil & Gas customers for single-use gas detection tubes after a number of years of lower activity levels.

SEALS

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

	2017	2016	
Revenue	£195.3m	£166.6m	+17%
Adjusted operating profit	£31.9m	£28.2m	+13%
Adjusted operating margin	16.3%	16.9%	-60bps
Free cash flow	£24.9m	£24.9m	-

- Sector revenue growth of 17%; underlying growth of 4% after adjusting for currency and acquisitions
- In North America, Aftermarket underlying revenues increased by 5% with a good performance in the core Hercules business and a strong recovery in the HKX business
- Industrial OEM underlying revenues in North America increased by 7% with an improving trend through the year following the US election
- Senior leadership team established to manage cluster of Industrial OEM businesses in the US
- International Seals businesses increased underlying revenues by 1% with performances of the businesses very dependent on local market conditions

Reported revenues of the Seals businesses increased by 17% to £195.3m (2016: £166.6m), with the acquisitions of PSP and Edco completed during the year contributing £2.1m or 1% to Sector revenues. Currency movements, on translation of the results from overseas businesses to UK sterling, contributed a further 12% to Sector revenues. After adjusting for the acquisitions and for currency effects, underlying revenues increased by 4%.

Adjusted operating margins for the Sector reduced by 60bps to 16.3% (2016: 16.9%). Across the businesses, gross margins reduced with product margins under pressure from supplier cost increases, but also reflecting an increase in other margin support costs, such as freight, discounts and stock adjustments. This reduction in gross margins was significantly mitigated by a combination of tight control over operating costs and improved operating leverage through increased revenues. Adjusted operating profits increased by 13% to £31.9m (2016: £28.2m).

During the year, £1.1m (2016: £1.4m) of capital expenditure was invested in the Seals businesses which included £0.6m to fit out new and expanded facilities in J Royal, Hercules Canada and Kentek. A further £0.2m was spent on new warehouse equipment in the Industrial OEM businesses, both in the US and in Europe and £0.3m was spent in connection with a major upgrade to the IT facilities in the Hercules businesses. The free cash flow generated in this Sector was £24.9m, which remained unchanged from last year with the additional after tax operating cash flow offsetting an increase in working capital as trading strengthened in the second half of the year.

North American Seals

The North American Seals businesses, which account for 61% of Seals revenues, reported revenues up 21% on the prior year, benefiting from the weakening of UK sterling against the US and Canadian dollars and from the small bolt-on acquisition of PSP. After excluding contributions from the acquired businesses and currency effects, underlying revenues increased by 6%.

The HFPG Aftermarket businesses increased revenues by 5% on a constant currency basis, driven by a good performance in the core Hercules Aftermarket Seals business in the US and Canada and a strong recovery in the HKX attachment kit business.

In the domestic US market, Hercules revenues increased by 5% as utilisation of heavy mobile machinery increased substantially compared with the previous year and expenditure levels in the Construction sector showed steady growth. The additional investment last year in sales and marketing resources also had a positive impact on revenues and specific growth initiatives continued to gain traction, including the focus on national accounts and specialty distributors. E-commerce continues to deliver strong year on year growth of ca. 20% p.a. in terms of both revenues and invoices processed and now accounts for 23% of Hercules US revenues. Hercules continues to add new products and to expand the breadth of equipment supported, with the new focus on Bobcat cylinders and Aerial Lifts gaining good momentum.

In Canada, revenues increased by 5% in local currency terms, with the strengthening Construction sector driving growth in the repair market and good growth in the Manufacturing sector, particularly in Ontario and Quebec. The modest recovery in the Oil & Gas and Mining sectors has had a positive impact and sales to hydraulic component and attachment manufacturers have also seen good growth. In markets outside of North America, Hercules and Bulldog revenues were broadly flat with limited growth in Mexico and the Middle East and reduced revenues in South and Central America.

The HKX attachment kit business returned to growth after two years of significant revenue reductions, which had reflected the severely depressed market for new excavators. Revenues increased by 11% with growth particularly strong in sales to Canadian customers, driven by recovery in the Oil & Gas sector, increased pipeline construction and strong sales of excavators ahead of new emissions regulations. New attachment kits have been developed to drive further growth as well as quick coupler kits with added safety features. The HKX product line has also been extended into higher tonnage equipment which has seen good momentum supporting large scale demolition projects.

The HFPG Industrial OEM businesses in North America (J Royal, RT Dygert and All Seals) increased revenues by 9% in US dollar terms, as the improving trend in industrial activity seen in the second quarter, following the US election, strengthened further as the year progressed. All three businesses delivered double-digit revenue increases in the second half of the year with strong demand from key accounts across a range of specialised industrial applications in industries including Water, Medical, Oil & Gas, Appliances and Food Equipment. The businesses continue to provide high levels of customer service and technical support to service existing projects while looking for opportunities to deploy higher specification, regulatory-compliant compounds to target new projects with higher levels of added-value.

In April 2017, J Royal relocated its operations to a newly constructed, purpose built facility in Winston Salem, North Carolina, which was then sold and leased back to the business. At the same time, the Group acquired PSP, a small bolt-on acquisition to All Seals based in Denver, Colorado which supplies O-rings and custom rubber moulded products and has strong customer relationships in the semi-conductor and pneumatics industries. PSP adds complementary new products and strengthens the position of the Industrial OEM Seals business in the Mountain Region of the US.

The Industrial OEM Seal businesses continue to pursue opportunities to create synergies through joint purchasing and through leveraging the different product, material and application skill-sets of the individual businesses. In the second half of the year, this was developed further by establishing a senior leadership team to manage this cluster of businesses in North America. While maintaining the distinct identity of the businesses and close local contact with customers, key functions including Sales, Supply Chain, Technical and Finance will be managed centrally by this team. The team has also initiated a project to implement a new ERP system across the Industrial OEM Seals businesses in the US, to replace the disparate legacy IT systems in the businesses. The new ERP system will be designed to increase operational efficiency, improve business intelligence and deliver broader marketing capabilities.

International Seals
The International Seals businesses, which account for 39% of Seals revenues, reported a 12% increase in UK sterling terms. After adjusting for currency and the acquisition of Edco, underlying revenues increased by 1%, but with performances in the individual businesses very

dependent on local market conditions.

The FPE Seals and M Seals businesses, with their principal operations in the UK, Scandinavia and the Netherlands, together delivered underlying growth of 11% in revenues on a constant currency basis. FPE Seals experienced good growth in its core UK market for Aftermarket hydraulic seals and metal cylinder parts and benefited from a recovery in demand from the Oil & Gas sector for sealing products used in Maintenance, Repair and Overhaul ("MRO") operations. FPE Seals also benefited from strong growth in several export markets.

M Seals delivered good growth in revenues in its core markets, with particularly strong growth in Sweden, building on its strong customer relationships to develop a number of major new projects. M Seals has also extended its activities into the Finnish market for seals, by investing in a sales resource based in Kentek's facility and making use of its operational infrastructure. As with FPE Seals, M Seals has also seen a recovery in demand from the Oil & Gas sector in the UK and is targeting specialised Industrial OEMs in other sectors of the market.

In June 2017, the Group completed the acquisition of Edco, a specialised distributor of O-rings, seals and gaskets based in Leicester and supplying to UK OEMs and MRO companies operating within the Oil & Gas and other process industries. Edco's success has been built on deep technical knowledge, high levels of customer service and the ability to supply a wide range of products from stock. Edco is being managed as part of the M Seals group with good opportunities for cross-selling and improved purchasing power.

The Kentek business, with principal operations in Finland and Russia, increased revenues by 4% in Euro terms. The revenues generated in Russia, which account for ca. 65% of Kentek revenues, slowed in the second half of the year after strong revenue growth in Euro terms in the first half. As selling prices for US and European sourced filters are linked to the Euro in this territory, the weakening of the Russian Rouble against the Euro as well as increasing competitive pressures in this market contributed to the slow down in revenue growth. However, Kentek significantly increased sales of its own-brand filters in Russia and the Baltics and achieved good growth in Finland, benefiting from a recovery in both the Aftermarket and Industrial OEM sectors.

Kubo and WCIS saw combined underlying revenues for the year reduce by 3%, with a return to modest revenue growth in the second half of the year after a 9% reduction in the first half. Kubo has been facing significant challenges in its core industrial market in Switzerland, where the strong currency has made Swiss industrial manufacturers less competitive. However, the strengthening of the Euro through the year has contributed to an increase in industrial activity in Switzerland. In Austria, Kubo's improved sales focus has introduced new customer revenues in Pharmaceutical and Industrial OEMs to replace a large prior year order which was not repeated this year.

WCIS has core capabilities in gaskets and mechanical seals used in MRO operations in complex and arduous conditions and has been significantly impacted by cutbacks in the Mining sector in recent years. In New Caledonia, WCIS has come under substantial pricing pressure from cost reduction initiatives in the nickel mining and processing operations of its major customer and in Australia, it has also experienced reduced revenues from its core Mining customer base. WCIS has responded by investing in additional sales resources to broaden coverage across a wider range of market sectors and territories and this initiative is starting to gain some traction, though as yet the revenues are not sufficient to offset fully the reductions in the Mining customer base.

CONTROLS

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

	2017	2016	
Revenue	£130.7m	£106.1m	+23%
Adjusted operating profit	£23.0m	£17.9m	+28%
Adjusted operating margin	17.6%	16.9%	+70bps
Free cash flow	£18.6m	£16.4m	+13%

- Sector revenue increased by 23%; underlying increase of 14% after adjusting for currency and acquisitions
- The Interconnect businesses benefited from increased project work and delivered strong underlying growth of 8%; Cablecraft has expanded the range of products supplied and markets served
- Clarendon increased revenues by over 30%, with growth driven by increased customer demand in Civil Aerospace and Motorsport
- Fluid Controls increased revenues by 14% with upturn in refrigeration equipment sales and increased export sales in Europe and the US

Reported revenues of the Controls businesses increased by 23% to £130.7m (2016: £106.1m). Full year contributions from Cablecraft and Ascome, acquired in the first half of last year, added £6.4m or 6% to Sector revenues and currency movements contributed a further 3% to Sector revenues on translation to UK sterling. On an underlying basis, after adjusting for these acquisitions and currency effects, underlying revenues increased by 14%, with growth moderating in the second half (though still double-digit) against stronger prior year comparatives.

Adjusted operating margins increased by 70bps to 17.6% (2016: 16.9%). Gross margins were broadly stable overall, with stronger margins in the Cablecraft business broadly offsetting the impact of weaker UK sterling on products purchased by the other Controls businesses. Operating costs remained tightly controlled across the businesses and improved leverage from the increased revenue more than offset increased investment in sales resources. Adjusted operating profits increased by 28% to £23.0m (2016: £17.9m).

Capital expenditure in this Sector remained very modest at £0.2m (2016: £0.4m), with £0.1m invested in the Clarendon business to upgrade its Totnes facility to improve operational efficiency. A further £0.1m was invested on general IT infrastructure across the Controls businesses. Free cash flow increased strongly to £18.6m (2016: £16.4m) reflecting stronger trading, including the additional contribution from Cablecraft and despite an increase in working capital to support the growth in trading.

Interconnect

The Interconnect businesses (IS-Group, Filcon and Cablecraft) account for 59% of Controls revenues and reported a revenue increase of 25% in UK sterling terms. After adjusting for the Cablecraft and Ascome acquisitions and for currency effects, underlying revenues increased by 8%.

The IS-Group continued to implement the business development programmes initiated last year, designed to position the business as the European supplier of choice for the full range of specialised cable harnessing components. Field sales resources have been realigned to focus on sectors and customer accounts with the highest growth potential and internal sales processes have been refocused to more efficiently manage the baseline business. Further investment has also been made in broadening the product range and further developing E-commerce capabilities.

The IS-Group UK businesses saw revenues increase by 7% in UK sterling terms. In Defence and Aerospace, the IS-Group reported a small increase in revenues, with the stronger growth seen in the first half of the year offset by slower trading in the second half. The lower level of activity at UK electrical harness customers towards the end of the year is partly from a tightening in Defence spending and partly from certain key customers being in between projects. In Motorsport, IS-Group increased revenues strongly, benefiting from regulation changes and the increased level of competition in races this year in the Formula 1 (“F1”) series, development of new cars in the World Rally Championship (“WRC”) Series and upgrades to the GT500 cars in Japan. The IS-Group also benefited from good double-digit growth in revenues from the Industrial sector in the UK and more broadly in Europe, as the business improved its competitive position under new sales leadership, following the appointment of a sales director focused on the EMEA region.

In Germany, IS-Sommer and Filcon reported a 14% increase in revenues in Euro terms, with modest growth in IS-Sommer boosted by major project activity in Filcon. In the Aerospace sector, IS-Sommer delivered good growth with a particularly strong performance in the Space market, supplying connectors and backshells to the Meteosat Third Generation (“MTG”) and Sentinel satellites. Solid growth in the Industrial market was driven by the stronger global economy, which benefited German exporters. Revenues were held back in the important Energy market where lower Utility company budgets delayed repair and maintenance of the electricity network and Motorsport revenues were impacted by the withdrawal of VW from the WRC Rally Series and Audi from the World Endurance Championship (“WEC”) Series, which includes the Le Mans race. Revenues in the Medical sector performed strongly with key medical device manufacturers managing a solid pipeline of projects on the back of new regulations.

Filcon delivered a very strong performance, increasing revenues by ca. 30% in Euro terms. There was a full year contribution from the small Ascome acquisition, but the primary driver of growth came from major orders secured in the final quarter of the prior year from key Military Aerospace and Space customers. These sectors have generally seen increased activity, with projects delivered for the Tornado aircraft, the RAM missile program and the Orion Mars capsule. In the Motorsport sector, the increased activity levels and demand in the F1 series has offset the reduced demand from the withdrawal by Audi from Le Mans. The Industrial market for connectors remains competitive and generally more challenging.

Cablecraft is a leading supplier of cable accessory products used to identify, connect, secure and protect electrical cables and has made a strong contribution to the Group since its acquisition in March 2016. Cablecraft has extended the markets served by the Interconnect businesses and has added attractive ranges of own-branded and manufactured products. During the year the business continued to focus on its areas of specialism, including the development of new own branded identification products, the promotion of its upgraded Identification Solutions offering and the specialist sales resources added to support sales growth. Revenues have increased by 7% on a like-for-like basis, with good growth generated from the continued focus on end user customers, especially electrical panel builders and contractors upgrading the UK rail network. Cablecraft continues to benefit from the move by customers towards E-commerce, with online sales growing by ca. 30% in the year.

Specialty Fasteners

The Clarendon Specialty Fasteners business accounts for 18% of Controls revenues and increased revenues by over 30% compared with the prior year, with growth driven principally by increased demand from customers in the Civil Aerospace sector. Revenues increased strongly with the ramp up of the major business class seating programme at a key aircraft seating customer which Clarendon supplies through its automatic inventory replenishment system (“Clarendon AIR”). Clarendon also had success in increasing sales to a range of other aircraft seating and cabin interiors manufacturers and their sub-contractors across Europe and introduced Clarendon AIR to a number of new customer locations.

Good growth was also achieved in Clarendon’s other major market of Motorsport, where Clarendon supplies aerospace-quality fasteners to the F1 race teams, engine builders and subcontractors and also supplies the Aerocatch own-brand range of aerodynamic bonnet latches for high performance sports cars and offshore powerboat racing. More modest growth has been achieved in the supply of pre-assembled and captive fasteners and bespoke engineered solutions to the Defence and general Industrial sectors.

After the year end, in October 2017, Clarendon completed the acquisition of Coast Fabrication Inc. ("Coast"), a small US specialty fastener distributor based in Huntington Beach, California. Coast has a strong reputation in the US Motorsport industry and also provides a base in the US for supporting Clarendon's current Aerospace customers as well as expanding its aircraft interiors business in this large market. A US presence is also a strategic purchasing priority for Clarendon, giving access to major fastener suppliers that principally sell to US entities.

Fluid Controls

The Hawco Group of Fluid Controls businesses (comprising Hawco and Abbeychart) accounts for 23% of Controls revenues and increased revenues by 14% against the prior year, in a market that remains highly competitive and price sensitive.

Hawco reported a good upturn in activity in the UK Refrigeration Equipment market, as store refurbishment activity in the UK increased and as the cabinet display manufacturers targeted opportunities outside the UK. Hawco benefited in particular from supplying scroll compressors into a significant project with a major US retailer and demand in the commercial Catering and Home Delivery market remained robust. In the Contractor market, strong growth was achieved, as Hawco targeted the independent trade counters and medium sized contractors who value Hawco's stock holding, next-day delivery and exclusive supplier relationships. Revenues from the Industrial OEM market reduced in the second half of the year, as demand from UK manufacturers softened, but this was partly offset by an increase in export revenues.

Abbeychart has continued to strengthen its relationship with the large vending machine operators in Europe and during the year supplied products to a large project to refresh a range of vending machines for a major customer in Switzerland. Abbeychart revenues also benefited from a full year of sales activity for a range of spare parts for Wurlitzer vending machines and from the introduction of a catalogue of essential spare parts for the specialist coffee market, which has offset reduced revenues from one of its larger coffee OEM customers. Abbeychart has continued to take market share in the soft drinks market by targeting both the major and the independent soft drink suppliers, with its bar gun and pump refurbishment offering.

FINANCE REVIEW

Results in 2017

Diploma delivered another strong performance this year, increasing revenues by 18% to £451.9m and increasing adjusted operating profit by 19% to £78.2m. The Group's reported financial results benefited from strong underlying growth, particularly in the Controls businesses, following two years of weaker end markets. The significant depreciation in UK sterling of ca. 11%, following the UK's Brexit vote on Europe led to increases in revenues and adjusted operating profits of £34.9m and £6.3m respectively on the translation of the results of the overseas businesses, when compared with last year's average exchange rates.

The environment for completing acquisitions has been more challenging over the past twelve months and the contribution from acquisitions completed both this year and last year, net of a small disposal last year, was £8.5m (2016: £26.6m) to revenue and £2.3m (2016: £4.2m) to adjusted operating profit.

The stronger growth in underlying revenues of 7% this year helped compensate for this smaller contribution from acquired businesses. Underlying revenues are after adjusting for the contribution from businesses acquired during the year (and from the incremental impact from those acquired last year) and for the impact on the translation of the results of the overseas businesses from the significant weakening in the UK sterling exchange rate against the currencies of the Group's overseas businesses.

Adjusted operating margin

The Group's adjusted operating margin improved by 10bps this year to 17.3% (2016: 17.2%) as transactional currency losses finally eased in the Group's Healthcare businesses. These businesses represent 23% of Group revenue and since late in 2013, their gross margins have been significantly impacted on a transactional basis by the continuing depreciation of the Canadian and Australian dollars, against the US dollar in particular which is the currency in which most of their products are purchased.

The Canadian and Australian exchange rates have remained more stable since the early part of this year and after a short period of weakness during the early Summer, both currencies strengthened sharply against the US dollar towards the end of the financial year.

The transactional impact on the Group's adjusted operating margin from the substantial depreciation in UK sterling has been limited. The UK businesses (26% of Group revenues) have faced higher product costs from the depreciation in UK sterling, but they have generally managed to mitigate these increases by a combination of selling price increases, support from suppliers and by switching some key customer accounts into Euro or US dollar invoicing.

The operating margins in those businesses acquired in recent years have, as anticipated, also made a slightly stronger contribution to the Group this year reflecting the benefits from initiatives taken shortly after acquisition.

Adjusted profit before tax, earnings per share and dividends

Adjusted profit before tax increased by 19% to £77.5m (2016: £64.9m). The interest expense this year was £0.7m (2016: £0.8m) which included a £0.2m (2016: £Nil) arrangement fee paid on renewal of the bank facility during the year. However interest costs on borrowings decreased by £0.3m to £0.1m this year reflecting a lower level of acquisition activity in 2017, compared with last year. The notional interest expense on the Group's defined pension liabilities increased to £0.3m (2016: £0.2m) reflecting the larger deficit in the fund this year, following the actuarial valuation completed as at 30 September 2016.

Statutory profit before tax was £66.8m (2016: £54.0m), after acquisition related charges of £9.7m (2016: £10.3m), which largely comprises the amortisation of acquisition related intangible assets and fair value remeasurements. These remeasurements of £1.0m (2016: £1.3m) relate to the put options held over minority interests and the charge this year reflects a small increase in the liability to acquire these minority interests and an unwinding of the discount on the liability. Last year's statutory profit also included a one-off gain of £0.7m from the disposal of the Medivators business in Canada and three small legacy properties in the UK.

The Group's effective tax charge in 2017 was 80bps above the previous year at 26.5% (2016: 25.7%) of adjusted profit before tax. The increase this year is despite a further reduction in the effective UK corporation tax rate to 19.5% (2016: 20.0%) which was insufficient to offset the impact from higher tax rates applied to the businesses acquired in Australia and the US this year.

Adjusted earnings per share ("EPS") increased by 19% to 49.8p, compared with 41.9p last year and statutory basic EPS increased to 42.0p (2016: 33.9p).

The Board continues to pursue a progressive dividend policy which aims to increase the dividend each year broadly in line with the growth in adjusted EPS. In determining the dividend in any one year in accordance with this policy, the Board also considers a number of factors which include the strength of the free cash flow generated by the Group, the future cash commitments and investment needed to sustain the Group's long term growth strategy and the target level of dividend cover. The Board continues to target towards two times dividend cover (defined as the ratio of adjusted EPS to total dividends paid and proposed for the year) which provides a prudent buffer.

The ability of the Board to maintain future dividend policy will be influenced by the principal risks identified on pages 18 to 22 that could adversely impact the performance of the Group. For 2017, the Board has recommended a final dividend of 16.0p per share (2016: 13.8p) making the proposed full year dividend 23.0p (2016: 20.0p). This represents a 15% increase in the proposed full year dividend with dividend cover increasing slightly to 2.2 times (2016: 2.1 times).

Free cash flow

The Group again generated strong free cash flow this year of £55.7m (2016: £59.0m). Last year's free cash flow included exceptional proceeds of £4.6m from the sale of the Medivators business in Canada and legacy properties and from an unusually large cash inflow of £6.3m from reduced working capital. Free cash flow represents cash available to invest in acquisitions or return to shareholders. Free cash flow conversion was 99% (2016: 124%) of adjusted earnings.

The Group's operating cash flow increased by £2.7m to £79.3m (2016: £76.6m) this year, despite a £4.0m outflow of cash into working capital. The generally stronger trading environment this year, together with some earlier seasonal stock builds in the Healthcare businesses contributed to a £5.1m increase in stock levels at the year end (2016: £1.3m) while the inflow from net payables reduced to £1.1m from £7.6m last year.

The Group's KPI metric of working capital to revenue at 30 September 2017 reduced to a record low of 15.0% (2016: 16.6%) reflecting much stronger revenues in the previous rolling 12 months, compared with last year.

Group tax payments increased by £1.7m to £19.3m (2016: £17.6m). On an underlying basis cash tax payments represented ca. 24% (2016: 23%) of adjusted profit before tax which was broadly unchanged from last year. Underlying tax payments are before currency effects of translation and exclude payments for pre-acquisition tax liabilities in acquired businesses.

The Group's tax strategy is to comply with tax laws in all of the countries in which it operates and to balance its responsibilities for controlling the tax costs with its responsibilities to pay tax where it does business. The Group's tax strategy has been approved by the Board and tax risks are regularly reviewed by the Audit Committee.

The Group's capital expenditure this year was £3.3m, compared with £3.7m last year. This expenditure excludes £1.9m (2016: £0.5m) which the Group paid for the construction of a new expanded facility for J Royal, a Seals business based in the US. On completion in April 2017, the facility was immediately sold and leased back to the business. A similar transaction was undertaken in 2015 in connection with the new FPE Seals facility.

The Life Sciences businesses invested £2.0m in new capital this year (2016: £2.2m) most of which was invested in field equipment in the Healthcare businesses to support placements in hospitals and diagnostic laboratories. This investment was £1.6m (2016: £0.9m) and included demonstration and loan equipment in connection with new capital equipment released in 2017 and a new supply agreement for a range of rigid endoscopes in Vantage. A further £0.3m was spent on upgrading the IT infrastructure in both the Healthcare businesses and the a1-group and £0.1m was spent on refurbishing a new facility in Markham, Canada which is used to service flexible endoscopes.

The Seals businesses invested £1.1m during the year in its operations with £0.5m being spent in the North American Seals businesses and £0.6m in the International Seals businesses. Across these businesses, £0.6m was invested to fit out new and expanded facilities in J Royal, Hercules Canada and Kentek. A further £0.2m was invested in new warehouse equipment in M Seals and Kubo and £0.3m was spent on upgrading the IT infrastructure across the Seals Sector. Capital expenditure in the Controls businesses remained modest at £0.2m (2016: £0.4m).

The Company paid the PAYE income tax liability of £0.7m (2016: £0.3m) on the exercise of LTIP share awards, in exchange for reduced share awards to participants.

The Group spent £20.1m of the free cash flow on acquisitions, including payment of deferred consideration, as described below and £23.7m (2016: £21.4m) on paying dividends to both Company and minority shareholders.

Acquisitions completed during the year

The Group invested £19.5m in acquiring new businesses this year and paid a further £0.6m of deferred consideration on a business acquired in the prior year. This compares with an aggregate of £32.7m invested last year in acquisitions, minority shareholdings and deferred consideration. The stronger economies in the US and Continental Europe contributed to a tougher environment to make acquisitions as business owners generally remained confident of increasing profitability in the year ahead.

In April 2017, the Group was successful in completing the acquisition of Abacus for cash consideration of £15.0m, including debt acquired and expenses. Abacus is a long-established supplier of clinical diagnostics instrumentation to the Pathology and Life Sciences sectors in Australia and New Zealand and provides critical mass to the Group's existing Healthcare businesses in this region. A further £4.5m in aggregate was invested in June 2017 to acquire Edco, a small hydraulic seal distributor in the UK and in April 2017 to acquire PSP, a small supplier of specialist seals based in the US.

These acquisitions added £10.1m to the Group's acquired intangible assets, which represents the valuation of customer and supplier relationships which will be amortised over periods ranging from five to ten years. At 30 September 2017, the carrying value of the Group's acquired intangible assets was £54.0m. Goodwill at 30 September 2017 was £122.7m and included £7.5m relating to those businesses acquired during the year (including fair value adjustments to the assets acquired).

Goodwill is not amortised but is assessed each year at a Sector level to determine whether there has been any impairment in the carrying value of goodwill acquired. The exercise to assess whether goodwill has been impaired is described in note 10 to the consolidated financial statements and concluded that there was significant headroom on the valuation of this goodwill, compared with the carrying value of goodwill at the year end.

Liabilities to minority shareholders

The Group's liability to purchase outstanding minority shareholdings at 30 September 2017 increased to £6.1m (2016: £5.1m) which comprise put options the Group holds over the outstanding minority interests held in M Seals, Kentek and TPD.

The liabilities for these put options are valued based on the Directors' latest estimate of the earnings before interest and tax ("EBIT") of these businesses when these options crystallise. The increase in this liability of £1.0m reflects in part a slightly higher value attributed to these businesses and in part an unwinding of the discount on the liability. Shortly after the year end the Group agreed to pay cash of £1.0m to acquire a further 5% shareholding in TPD from the minority shareholder.

In addition to the liability to minority shareholders, the Group also has a small liability at 30 September 2017 for deferred consideration of up to £0.5m (2016: £1.7m) which comprises the amount likely to be paid to the vendors of businesses purchased during the year, based on the Group's best estimate of the performance of these businesses next year. During the year, £0.6m was paid as deferred consideration relating to the acquisition of WCIS completed early in 2016 and a provision of £1.0m relating to the acquisition of Cablecraft was not required and was released to the Consolidated Income Statement as part of acquisition related charges.

Return on adjusted trading capital employed and capital management

A key metric that the Group uses to measure the overall profitability of the Group and its success in creating value for shareholders is the return on adjusted trading capital employed ("ROATCE"). At a Group level, this is a pre-tax measure which is applied against the fixed and working capital of the Group, together with all gross intangible assets and goodwill, including goodwill previously written off against retained earnings. At 30 September 2017, the Group ROATCE improved to 24.0% (2016: 21.1%) which reflects the strong increase in adjusted operating profits this year. Adjusted trading capital employed is defined in note 3 to the consolidated financial statements.

The Group continues to maintain a strong balance sheet with cash funds of £22.3m at 30 September 2017, compared with net cash funds of £10.6m last year. Surplus cash funds are generally repatriated to the UK, unless they are required locally to meet certain commitments, including acquisitions.

On 1 June 2017 the Group renewed its bank facility with a similar revolving multi-currency credit facility for a further three years and with an option to extend the facility from three years up to five years. The facility initially comprises a £30m committed facility, but with an accordion option which allows the Group to increase the commitment up to a maximum of £60m of borrowings. These new facilities were provided at a cost of 50bps and with a ratchet margin ranging from 70bps to 115bps over LIBOR depending on the ratio of EBITDA to net debt. These bank facilities are primarily used to meet any shortfall in cash to fund acquisitions.

Employee pension obligations

Pension benefits to existing employees, both in the UK and overseas, are provided through defined contribution schemes at an aggregate cost in 2017 of £2.8m (2016: £2.5m).

The Group maintains a legacy small closed defined benefit pension scheme in the UK. During the year a formal triennial funding valuation of this scheme as at 30 September 2016 was completed. This valuation reported an increase in the funding deficit of £6.5m to £9.2m with a 75% funding level which reflected the impact of bond yields falling to a record low of 1.5% at the valuation date from 3.6% in the previous funding valuation. However bond yields have increased slightly since the valuation date and investment returns have been strong again this year.

This recent improvement in market conditions, together with the strength of the employer covenant, helped limit the increase in cash contributions paid by the company to £0.5m from 1 October 2017, from £0.4m of cash contributions paid this year. This contribution rate will increase annually by 2% with the objective of eliminating the deficit within ten years.

In Switzerland, local law requires Kubo to provide a contribution based pension for all employees, which are funded by employer and employee contributions. This pension plan is managed for Kubo through a separate multi-employer plan of non–associated Swiss companies which pools the funding risk between participating companies. In Switzerland, Kubo's annual cash contribution to the pension scheme was £0.2m (2016: £0.3m).

Both the UK defined benefit scheme and the Kubo contribution scheme are accounted for in accordance with IAS19 (Revised). At 30 September 2017 the aggregate accounting pension deficit in these two schemes decreased by £7.3m to £9.9m reflecting a small increase in bond yields in both schemes, combined with a strong increase in the growth assets of the UK scheme compared with last year. The gross aggregate pension liability in respect of these two schemes at 30 September 2017 decreased by £6.6m to £49.5m which is funded by £39.6m of assets.

Potential impact of Brexit

The impact at an operational level on the Group's businesses from the current uncertainty regarding the process and timing of the UK's exit from the European Union is likely to be limited as only 26% of the Group's overall revenues are based in the UK. In addition, these businesses, as well as those based in Continental Europe, are substantially "in country" industrial suppliers of goods with limited sales activity being carried out across country borders.

At a macroeconomic level however, the Group's financial results have been impacted this year by the substantial depreciation in UK sterling that followed the Brexit vote. This has resulted in an increase to the Group's reported revenues, operating profits and net assets from translating the results of the Group's overseas businesses into UK sterling. It has also led to stronger inflation in supplier costs for the Group's UK based businesses which they have had to manage robustly to maintain gross margins.

The Group's UK businesses closely monitor developments in the Brexit plans of HM Government and their future investment plans include contingencies to mitigate the impact on their activities from a significant disruption in cross border trade between the UK and Continental Europe.

PRINCIPAL RISKS AND UNCERTAINTIES

Our principal risks and uncertainties

Set out below are the principal risks and uncertainties affecting the Group which have been determined by the Board, based on a robust risk evaluation process, to have the potential to have the greatest impact on the Group's future viability. These risks are similar to those reported last year, although with some movement on the relative ranking of these risks. In addition, following the risk evaluation process carried out this year, a new principal risk has been added that relates to 'Cybersecurity/Information Technology/Business Interruption'.

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

The Board has also considered the risks associated with the UK's Brexit vote to leave the European Union as explained above in the Finance Review.

Strategic risk	Relative movement to prior year
1. Downturn/instability in major markets	**Decrease**

Risk description & assessment

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

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

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

Mitigation

The businesses identify key market drivers and monitor the trends and forecasts, as well as maintaining close relationships with key customers who may give an early warning of slowing demand.

Changes to cost levels and inventories can then be made in a measured way to mitigate the effects.

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

Strategic risk	Relative movement to prior year
2. Supplier concentration/loss of key suppliers	**No change**

Risk description & assessment

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

Currently no single supplier represents more than 10% of Group revenue and only six single suppliers represent more than 2% each of Group revenue.

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

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

The success of the businesses depends significantly on representing suppliers whose products are recognised in the marketplace as the leading competitive brand. If suppliers fail to support these products with new development and technologies, then our businesses will suffer from reduced demand for their products and services.

Mitigation

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.

The businesses work very closely with each of their suppliers and regularly attend industry exhibitions to keep abreast of the latest technology and market requirements/trends. The businesses also meet with key customers on a regular basis to gain insight into their product requirements and market developments.

Strategic risk

Relative movement to prior year

3. Customer concentration/loss of key customer(s)

No change

Risk description & assessment

The loss of one or more major customers can be a material risk.

The nature of the Group's businesses is such that there is not a high level of dependence on any individual customer and no single customer represents more than 4% 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 and value added activities, close integration is established where possible with customers' systems and processes.

Operational risk

Relative movement to prior year

4. Cybersecurity/information technology/business interruption

Increase

Risk description & assessment

Group and operating business management depend critically on timely and reliable information from their IT systems to run their businesses. The Group seeks to ensure continuous availability, security and operation of those information systems.

Cyber threats to the businesses information systems have continued to show an increasing trend this year.

Any disruption or denial of service may delay or impact decision making through lack of availability of reliable data. Poor information handling or interruption of business may also lead to reduced service to customers. Unintended actions of employees caused by a cyber-attack may also lead to disruption, including fraud.

In North American Seals, HFPG's Aftermarket business is operated from a single warehouse based in Tampa, Florida which continues to be exposed to hurricanes during the season from August to November.

Mitigation

There is good redundancy and back-up built into local IT systems and the spread of businesses with their own stand alone IT systems also offers good protection from individual events.

A member of the Executive Management Group maintains responsibility for ensuring each business in the Group has a robust cybersecurity programme and reports twice a year to the main Board on the status of cybersecurity across the Group. In addition, education/awareness of cyber threats continues to ensure Group employees protect themselves and Group assets.

Business continuity plans exist for each business with ongoing testing. During September 2017, HFPG successfully deployed their business continuity plans to mitigate the impact of Hurricane Irma.

Operational risk

Relative movement to prior year

5. Loss of key personnel

No change

Risk description & assessment

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

The average length of service of the ca. 90 senior managers in the Group is 11 years and for all personnel in the Group is consistently ca. seven years.

Mitigation

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

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

Operational risk

Relative movement to prior year

6. Product liability

No change

Risk description & assessment

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.

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

Mitigation

Technically qualified personnel and control systems are in place to ensure products meet quality requirements. The Group's businesses are required to undertake Product Risk assessments and comprehensive Supplier Quality Assurance assessments. The Group has also established Group-wide product liability insurance which provides worldwide umbrella insurance cover of £30m across all Sectors.

The Group's businesses have undergone product liability training and are continually reviewed to demonstrate compliance with Group policies and procedures relating to product liability.

Financial risk

Relative movement to prior year

7. Foreign currency

No change

Risk description & assessment

Foreign currency risk is the risk that currency rates will affect the Group's results. The Group is exposed to two types of financial risk caused by currency volatility: **translational** exposure, being the effect that currency movements have on the Group's financial statements on translating the results of overseas subsidiaries into UK sterling and **transactional** exposure, being the effect that currency movements have on the results of operating businesses because their revenues or product costs are denominated in a currency other than their local currency.

The Group operates internationally and is exposed to translational 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 results and net assets of the Group's operations outside the UK are also exposed to foreign currency translation risk.

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 £6.2m (8%), due to currency translation. Similarly, a strengthening of UK sterling by 10% against all the non-UK sterling capital employed would reduce shareholders' funds by £19.1m.

The Group's UK businesses are exposed to transactional foreign exchange risk on those purchases that are denominated in a currency other than their local currency, principally US dollars and Euros. 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 operates across a number of diverse geographies but does not hedge translational exposure of operating profit and net assets.

The Group's businesses may hedge up to 80% of forecast (being a maximum of 18 months) foreign currency transactional exposures using forward foreign exchange contracts.

The Group finance department monitors rolling monthly forecasts of currency exposures.

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.

Accounting risk

Relative movement to prior year

8. Inventory obsolescence

No change

Risk description & assessment

Working capital management is critical to success in specialised industrial businesses as this has a major impact on cash flow. The principal risk to working capital is in inventory obsolescence and write-off.

The charge against operating profit in respect of old or surplus inventory in the year was £1.3m 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 2017

The responsibility statement below has been prepared in connection with the Group's full Annual Report & Accounts for the year ended 30 September 2017. 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 2016.

This responsibility statement was approved by the Board of Directors on 20 November 2017 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 2017

	Note	2017 £m	2016 £m
REVENUE	3,4	451.9	382.6
Cost of sales		(290.8)	(245.4)
Gross profit		161.1	137.2
Distribution costs		(10.6)	(8.4)
Administration costs		(82.0)	(73.4)
OPERATING PROFIT	3	68.5	55.4
Gain on disposal of assets		-	0.7
Financial expense	5	(1.7)	(2.1)
PROFIT BEFORE TAX		66.8	54.0
Tax expense	6	(18.6)	(14.9)
PROFIT FOR THE YEAR		48.2	39.1
Attributable to:			
Shareholders of the Company		47.5	38.3
Minority interests		0.7	0.8
		48.2	39.1
EARNINGS PER SHARE			
Basic and diluted earnings	7	42.0p	33.9p

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)	Note	2017 £m	2016 £m
Operating profit		68.5	55.4
Add: Acquisition related charges	3	9.7	10.3
ADJUSTED OPERATING PROFIT	3,4	78.2	65.7
Deduct: Interest expense	5	(0.7)	(0.8)
ADJUSTED PROFIT BEFORE TAX		77.5	64.9
ADJUSTED EARNINGS PER SHARE	7	49.8p	41.9p

CONSOLIDATED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
For the year ended 30 September 2017

	2017 £m	2016 £m
Profit for the year	48.2	39.1
Items that will not be reclassified to the Consolidated Income Statement		
Actuarial gains/(losses) in the defined benefit pension schemes	7.1	(6.6)
Deferred tax on items that will not be reclassified	(1.3)	1.0
	5.8	(5.6)
Items that may be reclassified to Consolidated Income Statement		
Exchange rate (losses)/gains on foreign currency net investments	(0.8)	31.7
(Losses)/gains on fair value of cash flow hedges	(1.0)	0.2
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	(0.2)	(1.5)
Deferred tax on items that may be reclassified	0.3	0.3
	(1.7)	30.7
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	52.3	64.2
Attributable to:		
Shareholders of the Company	51.6	62.7
Minority interests	0.7	1.5
	52.3	64.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2017

	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 2015	5.7	(0.5)	1.2	183.2	189.6	5.2	194.8
Total comprehensive income	-	31.0	(1.0)	32.7	62.7	1.5	64.2
Share-based payments	-	-	-	0.4	0.4	-	0.4
Minority interest acquired	-	-	-	2.0	2.0	(2.0)	-
Tax on income recognised directly in equity	-	-	-	0.1	0.1	-	0.1
Notional purchase of own shares	-	-	-	(0.3)	(0.3)	-	(0.3)
Dividends	-	-	-	(21.0)	(21.0)	(0.4)	(21.4)
At 30 September 2016	5.7	30.5	0.2	197.1	233.5	4.3	237.8
Total comprehensive income	-	(0.8)	(0.9)	53.3	51.6	0.7	52.3
Share-based payments	-	-	-	0.8	0.8	-	0.8
Minority interest acquired	-	-	-	-	-	-	-
Tax on items recognised directly in equity	-	-	-	0.3	0.3	-	0.3
Notional purchase of own shares	-	-	-	(0.7)	(0.7)	-	(0.7)
Dividends	-	-	-	(23.5)	(23.5)	(0.2)	(23.7)
AT 30 SEPTEMBER 2017	5.7	29.7	(0.7)	227.3	262.0	4.8	266.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2017

	Note	2017 £m	2016 £m
NON-CURRENT ASSETS			
Goodwill	10	122.8	115.2
Acquisition intangible assets		54.0	54.6
Other intangible assets		0.7	1.0
Investment	11	0.7	0.7
Property, plant and equipment		22.6	23.7
Deferred tax assets		0.2	0.2
		201.0	195.4
CURRENT ASSETS			
Inventories		73.2	66.8
Trade and other receivables		68.9	59.9
Cash and cash equivalents	9	22.3	20.6
		164.4	147.3
CURRENT LIABILITIES			
Trade and other payables		(69.7)	(60.6)
Current tax liabilities	6	(4.0)	(2.7)
Other liabilities	13	(2.5)	(1.7)
Borrowings	9	-	(10.0)
		(76.2)	(75.0)
NET CURRENT ASSETS		88.2	72.3
TOTAL ASSETS LESS CURRENT LIABILITIES		289.2	267.7
NON-CURRENT LIABILITIES			
Retirement benefit obligations		(9.9)	(17.2)
Other liabilities	13	(4.1)	(5.1)
Deferred tax liabilities		(8.4)	(7.6)
NET ASSETS		266.8	237.8
EQUITY			
Share capital		5.7	5.7
Translation reserve		29.7	30.5
Hedging reserve		(0.7)	0.2
Retained earnings		227.3	197.1
TOTAL SHAREHOLDERS' EQUITY		262.0	233.5
Minority interests		4.8	4.3
TOTAL EQUITY		266.8	237.8

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 September 2017

	Note	2017 £m	2016 £m
OPERATING PROFIT		68.5	55.4
Acquisition related charges	8	9.7	10.3
Non-cash items	8	5.1	4.6
(Increase)/decrease in working capital	8	(4.0)	6.3
CASH FLOW FROM OPERATING ACTIVITIES		79.3	76.6
Interest paid		(0.4)	(0.6)
Tax paid		(19.3)	(17.6)
NET CASH FROM OPERATING ACTIVITIES		59.6	58.4
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of businesses (including expenses)	12	(19.5)	(30.1)
Deferred consideration paid	13	(0.6)	(0.7)
Proceeds from sale of business (net of expenses)		-	2.2
Purchase of property, plant and equipment		(3.1)	(3.5)
Purchase of other intangible assets		(0.2)	(0.2)
Proceeds from sale of property, plant and equipment		0.1	2.4
NET CASH USED IN INVESTING ACTIVITIES		(23.3)	(29.9)
CASH FLOW FROM FINANCING ACTIVITIES			
Acquisition of minority interests	13	-	(1.9)
Dividends paid to shareholders	14	(23.5)	(21.0)
Dividends paid to minority interests		(0.2)	(0.4)
Notional purchase of own shares on exercise of share options		(0.7)	(0.3)
Repayment of borrowings, net	9	(10.0)	(10.0)
NET CASH USED IN FINANCING ACTIVITIES		(34.4)	(33.6)
Net increase/(decrease) in cash and cash equivalents		1.9	(5.1)
Cash and cash equivalents at beginning of year		20.6	23.0
Effect of exchange rates on cash and cash equivalents		(0.2)	2.7
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	22.3	20.6

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)			2017 £m	2016 £m
Net increase/(decrease) in cash and cash equivalents			1.9	(5.1)
Add:	Dividends paid to shareholders	14	23.5	21.0
	Dividends paid to minority interests		0.2	0.4
	Acquisition of businesses (including expenses)	12	19.5	30.1
	Acquisition of minority interests	13	-	1.9
	Deferred consideration paid	13	0.6	0.7
	Repayment of borrowings, net	9	10.0	10.0
FREE CASH FLOW			55.7	59.0
Cash and cash equivalents			22.3	20.6
Borrowings			-	(10.0)
NET CASH		9	22.3	10.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2017

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 20 November 2017.
These statements are presented in UK sterling, with all values rounded to the nearest 100,000, except where otherwise indicated.

The consolidated financial statements, which 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 2017 and the comparative period.

There were no new Standards, amendments or interpretations to existing Standards which have been published and endorsed by the EU and which have a significant impact on the results, financial position or presentation of the consolidated financial statements for the year ended 30 September 2017.

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 2017 and 2016. Statutory financial statements for the year ended 30 September 2016 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 2017, which were approved by the Directors on 20 November 2017, will be sent to shareholders on 8 December 2017 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 2017 and 2016. 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 17 January 2018 in 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")) performance measures which are not defined within IFRS. The Directors use these measures for internal management reporting in order to assess the operational performance of the Group on a comparable basis 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, adjustments to deferred consideration (collectively, "acquisition related charges"), the costs of a material restructuring or rationalisation of operations and the profit or loss relating to the sale of businesses or property. The Directors believe that adjusted operating profit is an important measure of the operational performance of the Group.

2.2 Adjusted profit before tax
At the foot of the Consolidated Income Statement, "adjusted profit before tax" is separately disclosed, being defined as adjusted operating profit, after finance expenses (but before fair value remeasurements under IAS39 in respect of future purchases of minority interests) and before tax. The Directors believe that adjusted profit before tax is an important measure of the operational performance of the Group.

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

2.4 Free cash flow

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

2.5 Trading capital employed and ROATCE

In the segment analysis in note 3, "trading capital employed" is reported, being defined as net assets less cash and cash equivalents and after adding back: borrowings; retirement benefit obligations; deferred tax; and acquisition liabilities in respect of future purchases of minority interests and deferred consideration. Adjusted trading capital employed is reported as being trading capital employed plus goodwill and acquisition related charges previously written off (net of deferred tax on acquisition intangible assets). Return on adjusted trading capital employed ("ROATCE") at the Group and Sector level is defined as the adjusted operating profit, divided by adjusted trading capital employed and adjusted for the timing effect of major acquisitions and disposals. The Directors believe that ROATCE is an important measure of the profitability of the Group.

3. BUSINESS SECTOR ANALYSIS

The Chief Operating Decision Maker ("CODM") for the purposes of IFRS8 is the Chief Executive Officer. The financial performance of the Sectors are reported to the CODM on a monthly basis and this information is used to allocate resources on an appropriate basis.

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

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

	Life Sciences		Seals		Controls		Group	
	2017	2016	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue								
- existing businesses	118.3	109.9	193.2	166.6	130.7	106.1	442.2	382.6
- acquisitions	7.6	-	2.1	-	-	-	9.7	-
Revenue	125.9	109.9	195.3	166.6	130.7	106.1	451.9	382.6
Adjusted operating profit								
- existing businesses	22.1	19.6	31.5	28.2	23.0	17.9	76.6	65.7
- acquisitions	1.2	-	0.4	-	-	-	1.6	-
Adjusted operating profit	23.3	19.6	31.9	28.2	23.0	17.9	78.2	65.7
Acquisition related charges	(3.2)	(2.9)	(5.5)	(5.0)	(1.0)	(2.4)	(9.7)	(10.3)
OPERATING PROFIT	20.1	16.7	26.4	23.2	22.0	15.5	68.5	55.4

Acquisition related charges of £9.7m (2016: £10.3m) comprises £10.3m (2016: £9.3m) of amortisation of acquisition intangible assets, £0.4m of acquisition expenses (2016: £1.2m) and a credit of £1.0m relating to adjustments to deferred consideration (2016: £0.2m credit).

3. BUSINESS SECTOR ANALYSIS (continued)

	Life Sciences		Seals		Controls		Group	
	2017	2016	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m	£m	£m
Operating assets	42.2	35.1	74.6	70.3	48.1	44.4	164.9	149.8
Investment	-	-	0.7	0.7	-	-	0.7	0.7
Goodwill	59.5	52.8	39.9	39.1	23.4	23.3	122.8	115.2
Acquisition intangible assets	15.4	10.6	27.0	30.4	11.6	13.6	54.0	54.6
	117.1	98.5	142.2	140.5	83.1	81.3	342.4	320.3
Unallocated assets:								
– Deferred tax assets							0.2	0.2
– Cash and cash equivalents							22.3	20.6
– Corporate assets							0.5	1.6
TOTAL ASSETS	117.1	98.5	142.2	140.5	83.1	81.3	365.4	342.7
Operating liabilities	(21.3)	(17.9)	(26.6)	(22.9)	(21.1)	(18.8)	(69.0)	(59.6)
Unallocated liabilities:								
– Deferred tax liabilities							(8.4)	(7.6)
– Retirement benefit obligations							(9.9)	(17.2)
– Acquisition liabilities							(6.6)	(6.8)
– Corporate liabilities							(4.7)	(3.7)
– Borrowings							-	(10.0)
TOTAL LIABILITIES	(21.3)	(17.9)	(26.6)	(22.9)	(21.1)	(18.8)	(98.6)	(104.9)
NET ASSETS	95.8	80.6	115.6	117.6	62.0	62.5	266.8	237.8

Alternative Performance Measures (Note 2)	Life Sciences		Seals		Controls		Group	
	2017	2016	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m	£m	£m
NET ASSETS	95.8	80.6	115.6	117.6	62.0	62.5	266.8	237.8
Add/(deduct):								
- Deferred tax, net							8.2	7.4
- Retirement benefit obligations							9.9	17.2
- Acquisition liabilities							6.6	6.8
- Net cash funds							(22.3)	(10.6)
REPORTED TRADING CAPITAL EMPLOYED							269.2	258.6
- Historic goodwill and acquisition related charges, net of deferred tax	28.8	28.0	28.1	22.7	9.4	8.5	66.3	59.2
ADJUSTED TRADING CAPITAL EMPLOYED	124.6	108.6	143.7	140.3	71.4	71.0	335.5	317.8
Pro-forma adjusted operating profit[1]	24.6	19.6	32.8	28.2	23.0	19.2	80.4	67.0
ROATCE	19.7%	18.0%	22.8%	20.1%	32.2%	27.0%	24.0%	21.1%

[1] After annualisation of adjusted operating profit of acquisitions and disposals.

OTHER SECTOR INFORMATION	Life Sciences		Seals		Controls		Group	
	2017	2016	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m	£m	£m
Capital expenditure	2.0	1.9	1.1	1.4	0.2	0.4	3.3	3.7
Depreciation and amortisation	2.2	2.0	1.9	1.9	0.6	0.6	4.7	4.5

4. GEOGRAPHIC SEGMENT ANALYSIS BY ORIGIN

	Revenue		Adjusted operating profit		Non-current assets[1]		Trading capital employed		Capital expenditure	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
United Kingdom	118.4	97.4	20.6	16.1	42.3	42.3	60.1	59.6	0.3	0.5
Rest of Europe	112.8	98.3	17.2	15.0	58.6	62.7	76.9	79.2	0.6	1.0
North America	188.3	165.2	36.3	32.3	70.9	74.0	99.9	101.3	1.9	1.8
Rest of World	32.4	21.7	4.1	2.3	28.3	15.5	32.3	18.5	0.5	0.4
	451.9	382.6	78.2	65.7	200.1	194.5	269.2	258.6	3.3	3.7

[1] Non-current assets exclude the investment and deferred tax assets.

5. FINANCIAL EXPENSE

	2017 £m	2016 £m
Interest expense and similar charges		
- bank facility and commitment fees	(0.3)	(0.2)
- interest payable on bank and other borrowings	(0.1)	(0.4)
- notional interest expense on the defined benefit pension scheme	(0.3)	(0.2)
Interest expense and similar charges	(0.7)	(0.8)
- fair value remeasurement of put options (note 13)	(1.0)	(1.3)
FINANCIAL EXPENSE	(1.7)	(2.1)

The fair value remeasurement of £1.0m (2016: £1.3m) comprises £0.5m (2016: £0.5m) which relates to an unwinding of the discount on the liability for future purchases of minority interests and a movement in the fair value of the put options of £0.5m debit (2016: £0.8m debit).

6. TAX EXPENSE

	2017 £m	2016 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
- UK corporation tax	3.7	2.9
- Overseas tax	17.2	13.7
	20.9	16.6
Adjustments in respect of prior year:		
- UK corporation tax	(0.5)	(0.2)
- Overseas tax	0.2	(0.2)
Total current tax	20.6	16.2
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
- United Kingdom	(1.9)	(1.6)
- Overseas	(0.1)	0.3
Total deferred tax	(2.0)	(1.3)
TOTAL TAX ON PROFIT FOR THE YEAR	18.6	14.9

Factors affecting the tax charge for the year:
The difference between the total tax charge calculated by applying the effective rate of UK corporation tax of 19.5% to the profit before tax of £66.8m and the amount set out above is as follows:

	2017 £m	2016 £m
Profit before tax	66.8	54.0
Tax on profit at UK effective corporation tax rate of 19.5% (2016: 20.0%)	13.0	10.8
Effects of:		
– change in UK tax rates	-	(0.1)
– higher tax rates on overseas earnings	5.3	4.1
– adjustments to current tax charge in respect of previous years	(0.3)	(0.4)
– other permanent differences	0.6	0.5
TOTAL TAX ON PROFIT FOR THE YEAR	18.6	14.9

The Group earns its profits in the UK and overseas. The UK corporation tax rate was reduced from 20.0% to 19.0% on 1 April 2017. 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 2017 was 19.5% (2016: 20.0%) and this rate has been used for tax on profit in the above reconciliation. The Group's net overseas tax rate is higher than that in the UK, primarily because the profits earned in the US, Canada and Australia are taxed at significantly higher rates than the UK.

The UK deferred tax assets and liabilities at 30 September 2017 have been calculated based on the future UK corporation tax rate of 17.0%, substantively enacted at 30 September 2017.

At 30 September 2017, the Group had outstanding tax liabilities of £4.0m (2016: £2.7m) of which £1.6m related to UK tax liabilities and £2.4m related to overseas tax liabilities. These amounts are expected to be paid within the next financial year.

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 113,133,341 (2016: 113,058,835) and the profit for the year attributable to shareholders of £47.5m (2016: £38.3m). There were no potentially dilutive shares.

Adjusted earnings per share

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

	2017 pence per share	2016 pence per share	2017 £m	2016 £m
Profit before tax			66.8	54.0
Tax expense			(18.6)	(14.9)
Minority interests			(0.7)	(0.8)
Earnings for the year attributable to shareholders of the Company	42.0	33.9	47.5	38.3
Acquisition related charges	8.6	9.1	9.7	10.3
Fair value remeasurement of put options	0.9	1.1	1.0	1.3
Gain on disposal of assets	-	(0.6)	-	(0.7)
Tax effects on acquisition related charges and fair value remeasurements	(1.7)	(1.6)	(1.9)	(1.8)
ADJUSTED EARNINGS	49.8	41.9	56.3	47.4

8. RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES

	2017 £m	2017 £m	2016 £m	2016 £m
Operating profit		68.5		55.4
Acquisition related charges (note 3)		9.7		10.3
Adjusted operating profit		78.2		65.7
Depreciation or amortisation of tangible and other intangible assets	4.7		4.5	
Share-based payments expense	0.8		0.4	
Cash paid into defined benefit schemes	(0.4)		(0.3)	
Non-cash items		5.1		4.6
Operating cash flow before changes in working capital		83.3		70.3
Increase in inventories	(5.1)		(1.3)	
Increase in trade and other receivables	(6.6)		(0.3)	
Increase in trade and other payables	7.7		7.9	
(Increase)/decrease in working capital		(4.0)		6.3
Cash flow from operating activities, before acquisition expenses		79.3		76.6

9. NET CASH

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

	2017 £m	2016 £m
Net increase/(decrease) in cash and cash equivalents	1.9	(5.1)
Decrease in borrowings	10.0	10.0
	11.9	4.9
Effect of exchange rates	(0.2)	2.7
Movement in net cash	11.7	7.6
Net cash at beginning of year	10.6	3.0
NET CASH AT END OF YEAR	22.3	10.6
Comprising:		
Cash and cash equivalents	22.3	20.6
Borrowings	-	(10.0)
NET CASH AT 30 SEPTEMBER	22.3	10.6

On 1 June 2017, the Group replaced its existing facility that was due to expire on 23 June 2017 with a similar committed three year facility for £30.0m with an accordion option to increase the committed facility by a further £30.0m up to a maximum of £60.0m and an option to extend the facility up to five years. At 30 September 2017, none of the facility had been drawn down (2016: £10.0m). Interest on this facility is payable between 70 and 115bps over LIBOR, depending on the ratio of net debt to EBITDA.

10. GOODWILL

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 1 October 2015	44.9	29.6	14.8	89.3
Acquisitions	-	4.0	7.8	11.8
Exchange adjustments	7.9	5.5	0.7	14.1
At 30 September 2016	52.8	39.1	23.3	115.2
Acquisitions (note 12)	6.1	1.4	-	7.5
Exchange adjustments	0.6	(0.6)	0.1	0.1
AT 30 SEPTEMBER 2017	59.5	39.9	23.4	122.8

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

The key assumptions used to prepare the cash flow forecasts relate to gross margins, revenue growth rates and the discount rate. The gross margins are assumed to remain sustainable, which is supported by historical experience; revenue growth rates generally approximate to average rates for the markets in which the business operates, unless there are particular factors relevant to a business, such as start-ups. The annual growth rates used in the cash flow forecasts for the next five years represent the budgeted rates for 2018 and thereafter, average growth rates for each Sector; these annual growth rates then reduce to 2% over the longer term.

10. GOODWILL (continued)

The cash flow forecasts are discounted to determine a current valuation using a single market derived pre-tax discount rate of ca. 12% (2016: 11%). This single rate is based on the characteristics of lower risk, non-technically driven, distribution businesses operating generally in well developed markets and geographies and with robust capital structures. As these features are consistent between each of the Group's Sectors the Board considers that it is more appropriate to use a single discount rate applied to each Sector's cash flow forecasts.

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

The Directors have also carried out sensitivity analysis on the key assumptions noted above to determine whether a "reasonably possible adverse change" in any of these assumptions would result in an impairment of goodwill. The analysis indicates that a "reasonably possible adverse change" would not give rise to an impairment charge to goodwill in any of the three Sectors.

11. INVESTMENT

	2017 £m	2016 £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 2017, there was no material difference between the book value of this investment and its fair value.

12. ACQUISITION OF BUSINESSES

On 19 April 2017 the Group acquired 100% of Abacus ALS Pty Ltd based in Brisbane, Australia and its wholly owned subsidiary Abacus ALS Limited based in Auckland, New Zealand (together "Abacus") for total cash consideration of £14.1m (A$23.3m). This comprised initial consideration of £12.4m (A$20.4m), together with £1.7m (A$2.9m) of deferred consideration based on the performance of the business for the year ended 30 June 2017. The initial consideration of £13.6m (A$22.5m) was before adjustments relating to working capital and net debt on completion of £1.2m (A$2.1m), but before acquisition expenses of £0.3m (A$0.5m).

On 19 April 2017, the Group acquired 100% of Problem Solving Products, Inc ("PSP"), based in Colorado US, for total cash consideration of £1.4m (US$1.9m).

On 16 June 2017, the Group acquired 100% of Edco Seal & Supply Limited ("Edco") based in Leicester, England, for initial cash consideration of £3.2m, which included £0.2m of surplus cash and was before acquisition expenses of £0.1m. Maximum deferred consideration of up to £0.7m is payable based on the performance of Edco for the 12 months ended 30 April 2018, of which £0.4m has been provided at 30 September 2017.

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

	Abacus		PSP		Edco		Total	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Acquisition intangible assets	-	7.8	-	0.8	-	1.5	-	10.1
Deferred tax	0.2	(1.7)	-	-	-	(0.3)	0.2	(2.0)
Property, plant and equipment	1.0	0.9	-	-	0.1	0.1	1.1	1.0
Inventories	1.6	1.0	0.2	0.1	0.5	0.4	2.3	1.5
Trade and other receivables	2.4	2.4	0.3	0.3	1.4	1.4	4.1	4.1
Trade and other payables	(1.8)	(1.8)	(0.2)	(0.2)	(0.7)	(0.7)	(2.7)	(2.7)
Net assets acquired	3.4	8.6	0.3	1.0	1.3	2.4	5.0	12.0
Goodwill	-	6.1	-	0.4	-	1.0	-	7.5
	3.4	14.7	0.3	1.4	1.3	3.4	5.0	19.5

	Abacus	PSP	Edco	Total
Cash paid	14.1	1.4	3.2	18.7
Net debt acquired	0.6	-	-	0.6
Cash acquired	-	-	(0.2)	(0.2)
Expenses of acquisition	0.3	-	0.1	0.4
Net cash paid, after acquisition expenses	15.0	1.4	3.1	19.5
Deferred consideration payable	-	-	0.4	0.4
Less: expenses of acquisition	(0.3)	-	(0.1)	(0.4)
Total consideration	14.7	1.4	3.4	19.5

Goodwill of £7.5m recognised on these acquisitions represents the amount paid for future sales growth from both new customers and new products, operating cost synergies and employee know-how.

From the date of acquisition to 30 September 2017, the newly acquired Abacus business contributed £7.6m to revenue and £1.2m to adjusted operating profit, the newly acquired PSP business contributed £1.0m to revenue and £0.2m to adjusted operating profit and the newly acquired Edco business contributed £1.1m to revenue and £0.2m to adjusted operating profit. If these businesses had been acquired at the beginning of the financial year, they would in aggregate have contributed on a pro-rata basis £21.6m to revenue and £3.8m to adjusted operating profit. However these amounts should not be viewed as indicative of the results of these businesses that would have occurred, if these acquisitions had been completed at the beginning of the year.

13. OTHER LIABILITIES

	2017 £m	2016 £m
Future purchases of minority interests	6.1	5.1
Deferred consideration	0.5	1.7
	6.6	6.8
Analysed as:		
Due within one year	2.5	1.7
Due after one year	4.1	5.1

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

	2017 £m	2016 £m
At 1 October	5.1	5.7
Acquisition of minority interests on exercise of option	-	(1.9)
Unwinding of discount	0.5	0.5
Fair value remeasurements	0.5	0.8
AT 30 SEPTEMBER	6.1	5.1

At 30 September 2017, the Group retained put options to acquire minority interests in TPD, Kentek and M Seals.

The estimate of the financial liability at 30 September 2017 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 2017. This led to a remeasurement of the fair value of these put options and the liability was increased by £0.5m (2016: £0.8m) reflecting a revised estimate of the future performance of the businesses and by a further £0.5m (2016: £0.5m) charge which arises from unwinding the discount on the liability. In aggregate £1.0m (2016: £1.3m) has been charged to the Consolidated Income Statement.

The put options to acquire the remaining minority interest of 10% held in both M Seals and in Kentek are exercisable from November 2018. Subsequent to the year end, the option to acquire an outstanding 5% minority interest in TPD has been exercised for cash consideration of £1.0m. The remaining 5% is exercisable within the next 12 months.

Deferred consideration comprises the following:

	2017 £m	2016 £m
WCIS	-	0.6
Cablecraft	-	1.0
Ascome	0.1	0.1
Edco	0.4	-
AT 30 SEPTEMBER	0.5	1.7

The amounts outstanding at 30 September 2017 are expected to be paid within the next twelve months and will largely be based on the performance of these businesses in the period following their acquisition by the Group.

During the year, outstanding deferred consideration of £0.6m (A$1.0m) was paid to the vendors of WCIS in respect of the performance of the business in the year ended 30 September 2016. The deferred consideration of £1.0m relating to Cablecraft was not required and has been released to the Consolidated Income Statement as part of acquisition related charges in note 3.

14. DIVIDENDS

	2017 pence per share	2016 pence per share	2017 £m	2016 £m
Interim dividend, paid in June	7.0	6.2	7.9	7.0
Final dividend of the prior year, paid in January	13.8	12.4	15.6	14.0
	20.8	18.6	23.5	21.0

The Directors have proposed a final dividend in respect of the current year of 16.0p per share (2016: 13.8p) which will be paid on 24 January 2018, subject to approval of shareholders at the Annual General Meeting on 17 January 2018. The total dividend for the current year, subject to approval of the final dividend, will be 23.0p per share (2016: 20.0p).

15. EXCHANGE RATES

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

	Average		Closing	
	2017	2016	2017	2016
US dollar (US$)	1.27	1.41	1.34	1.30
Canadian dollar (C$)	1.67	1.87	1.68	1.71
Euro (€)	1.15	1.28	1.13	1.16
Swiss franc (CHF)	1.26	1.40	1.30	1.26
Australian dollar (A$)	1.67	1.92	1.71	1.70

16. SUBSEQUENT EVENTS

On 16 October 2017, the Group completed the acquisition of 100% of Coast Fabrication, Inc. (“Coast”), a supplier of specialist fasteners based in California, US, for initial cash consideration of £1.0m (US$1.3m) and maximum deferred consideration of £0.3m (US$0.4m). A review to determine fair values of the net assets acquired will be completed during the next financial year.