NEWSRELEASE

DIPLOMA PLC

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**FOR IMMEDIATE RELEASE**

**11 May 2015**

# ANNOUNCEMENT OF HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 31 MARCH 2015

**"Further growth with strong contribution from acquisitions"**

| | **Unaudited Six months ended 31 March 2015 £m** | Unaudited Six months ended 31 March 2014 £m | |
|---|---|---|---|
| **Revenue** | **163.2** | 148.6 | ***+10%*** |
| **Adjusted operating profit[1]** | **29.6** | 27.8 | ***+6%*** |
| **Adjusted operating margin[1]** | **18.1%** | 18.7% | |
| **Adjusted profit before tax[1],[2]** | **29.3** | 27.6 | ***+6%*** |
| **Profit before tax** | **26.0** | 24.2 | ***+7%*** |
| **Profit after tax** | **18.7** | 17.0 | ***+10%*** |
| **Free cash flow[3]** | **12.4** | 13.0 | ***-5%*** |
| | **Pence** | Pence | |
| **Adjusted earnings per share[1],[2]** | **18.6** | 17.5 | ***+6%*** |
| **Basic earnings per share** | **16.2** | 14.9 | ***+9%*** |
| **Interim dividend per share** | **5.8** | 5.4 | ***+7%*** |

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

## Financial Highlights

- Businesses acquired during the past year added **10%** to Group revenues; currency movements reduced revenues by **2%;** underlying revenue growth of **2%.**
- Adjusted profit before tax and EPS both increased by **6%** to **£29.3m** and **18.6p**, respectively.
- Free cash flow decreased by **5%** to **£12.4m**, after **£2.0m** increase in capital expenditure.
- Acquisition expenditure of **£35.0m,** over double that completed in the full 2014 financial year.
- Net debt of **£14.9m** at the end of March 2015.
- Interim dividend increased by **7%** to **5.8p** per share reflecting confidence in Group's growth prospects.



REGISTERED IN ENGLAND. NUMBER 3899848.
12 CHARTERHOUSE SQUARE, LONDON EC1M 6AX

**Operational Highlights**

- Seals revenues increased by 8% on an underlying basis, benefitting from strong demand particularly in North American markets.
- Life Sciences revenues increased by 1% on an underlying basis with the Canadian Healthcare businesses facing tougher markets as hospitals increased their focus on cost control.
- Controls revenues decreased by 5% on an underlying basis reflecting softer European industrial markets and against strong prior year comparatives.
- Acquisitions of TPD in Ireland and the UK and the Kubo Group in Switzerland and Austria extended the scope of the Healthcare and Seals businesses respectively in Europe and open up new growth opportunities.

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

**"Diploma has delivered a robust performance for the first half with a significant contribution from acquisitions completed during the past year. This has allowed the Group to report growth in earnings and dividends, despite the challenges caused by weaker European industrial markets and volatile currency movements.**

**The Group has a strong and proven business model which aims to deliver "GDP plus" organic revenue growth, with carefully selected acquisitions accelerating the growth to the target double-digit level. While headwinds to organic growth remain in certain key markets, the acquisition pipeline remains encouraging and the Group will continue to focus on bringing these opportunities to completion."**

*Note:*

1. *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 Announcement to "underlying" revenues or operating profits refer to reported results on a constant currency basis and before any contribution from acquired 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.*

2. *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.*

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](www.diplomaplc.com)

For further information please contact:

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**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. 1,400 employees and its principal operating businesses are located in the UK, Northern Europe, North America and Australia.

Over the last five years, the Group has grown adjusted earnings per share at an average of ca. **20%** p.a. through a combination of organic growth and acquisitions. Diploma is a member of the FTSE 250 with a market capitalisation of ca. **£900m**.

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

## HALF YEAR REVIEW TO 31 MARCH 2015

The Group's revenues for the six months ended 31 March 2015 increased by 10% over the prior year comparable period, having benefited from the good contributions from businesses acquired during the past year. The acquired businesses have added 10% to Group revenues, but currency volatility has continued to impact the Group's results, reducing revenues by 2%. On an underlying basis, after adjusting for acquisitions and for currency effects on translation, Group revenues increased by 2%.

The main driver to underlying revenue growth has been from the Seals businesses, where revenues increased by 8% on an underlying basis, benefitting from strong demand particularly in the North American markets. In Life Sciences, revenues increased by 1% on an underlying basis as the Canadian Healthcare businesses faced tougher markets, with hospitals increasing their focus on controlling costs. In Controls, revenues decreased by 5% on an underlying basis reflecting softer European industrial markets and against strong prior year comparatives in Motorsport and in Aerospace fasteners.

Acquisitions remain an integral part of the Group's growth strategy and the more stable acquisition environment experienced last year has continued into the first half of the current year. During the period ended 31 March 2015, the Group has invested £35.0m in acquiring businesses, principally the acquisitions of TPD in October 2014 for £11.0m and of the Kubo Group in March 2015 for £22.7m; this acquisition spend compares with £16.5m in the full 2014 financial year. The acquisition pipeline remains encouraging and the Group will continue to focus on bringing these opportunities to completion.

Currency movements have continued to impact the Group's results on both a translational and transactional basis. Further depreciation relative to last year, of the Euro and the Canadian and Australian dollars against UK sterling, more than offset the positive translational impact from the appreciation of the US dollar. In addition, gross margins in the Group's Healthcare businesses have been further impacted by the transactional currency effects of the weaker Canadian and Australian dollars.

As anticipated, adjusted operating margins moved to 18.1%, compared with 18.7% for the first half of 2014 and 18.4% for the second half of 2014. There are a number of moving parts which have driven this change in Group operating margins. The combination of operating leverage in the Seals businesses and further tight control of operating costs across the Group have had a positive impact on Group operating margins. However, these improvements have been more than offset by the transactional currency impact in the Healthcare businesses within Life Sciences and from reverse operational leverage in the Controls businesses as a result of weaker trading. In addition, acquisitions typically join the Group with lower initial operating margins, before investments made post-acquisition begin to deliver benefits and increase margins towards Group levels.

## RESULTS AND DIVIDENDS

In the six months ended 31 March 2015, Group revenue increased by 10% to £163.2m (2014: £148.6m). Adjusted operating profit increased by 6% to £29.6m (2014: £27.8m) and adjusted operating margins were 18.1% (2014: 18.7%). Revenues and adjusted operating profits increased by 2% and 1% respectively, after adjusting for the incremental contribution from acquisitions and for translational currency effects.

Adjusted profit before tax increased by 6% to £29.3m (2014: £27.6m) and adjusted earnings per share increased by 6% to 18.6p (2014: 17.5p). On a reported basis, profit before tax was £26.0m (2014: £24.2m) and basic earnings per share were 16.2p (2014: 14.9p).

The cash flow from operations in the period increased by 8% to £24.4m (2014: £22.6m) after the usual seasonal investment in working capital of £6.8m (2014: £6.6m). The Group's free cash flow for the period reduced by £0.6m to £12.4m (2014: £13.0m) due to an increase of

£2.0m in capital expenditure to £2.8m (2014: £0.8m). This increase was principally driven by an investment of £1.1m in a new facility which is being constructed for FPE Seals. At 31 March 2015, the Group had net debt of £14.9m.

The Group continues to follow a progressive dividend policy, which targets dividend cover towards two times on an adjusted EPS basis. The Directors have declared an increased interim dividend up 7% to 5.8p per share (2014: 5.4p), reflecting the Board's continuing confidence in the Group's growth prospects. The dividend will be payable on 17 June 2015 to shareholders on the register on 22 May 2015.

## OPERATING REVIEW

### Life Sciences

The Life Sciences businesses are suppliers of consumables, instrumentation and related services to the healthcare and environmental industries.

| | Half Year | | |
|---|---|---|---|
| | **2015** | **2014** | |
| Revenue | **£52.0m** | £46.6m | *+12%* |
| Adjusted operating profit | **£10.3m** | £10.6m | *-3%* |
| Adjusted operating margin | ***19.8%*** | *22.7%* | |

Reported revenues increased by 12% over the prior comparable period. The acquisitions of TPD in October 2014 and Chemzyme in July 2014 added 14% to revenues but the weaker Canadian and Australian dollars reduced revenues by 3% on translation. On an underlying basis, after adjusting for currency and acquisitions, revenues increased by 1%.

In October 2014, DHG acquired 80% of TPD, an established supplier to the Biotechnology, Clinical Laboratory and Medical markets in the UK and Ireland. The acquisition represents an important first step in extending the scope of DHG's business into these new markets as well as adding important new products and suppliers. TPD has performed well since acquisition and is showing good double-digit growth in revenues on a like-for-like basis.

As anticipated, adjusted operating margins reduced by 290 bps as gross margins in the Healthcare businesses were further impacted on a transactional basis as the Canadian and Australian dollars continued to weaken against the US dollar during the period and margin protection was removed from earlier more favourable currency hedging contracts. Local management continue to work closely with suppliers and customers to mitigate the impact on gross margins, as well as managing operating costs tightly.

The DHG group of ***Healthcare*** businesses, which account for ca. 85% of Sector revenues, increased underlying revenues by 1%. The Canadian Healthcare business revenues were unchanged as the tougher economic environment resulted in greater budget year pressures throughout the Healthcare system in Canada. There have also been significant initiatives to centralise functions within certain Health regions which has resulted in limitations being placed on purchasing and a general slowdown in capital purchases until new structures and administrative processes are in place.

Against this background, Somagen has achieved underlying growth in sales of consumables from its key suppliers, in particular diabetes testing and electrophoresis, colorectal cancer screening and assisted reproductive technology (ART); capital equipment revenues have been slow however due to the reorganisation of testing services in certain Provinces. AMT has delivered continued volume growth in electrosurgery consumables with increasing smoke evacuation compliance in existing accounts and penetration into new accounts. However, tender and evaluation processes introduced by certain General Purchasing Organisations (GPOs) have put pressure on unit prices and constrained revenue growth. Vantage has seen modest growth in consumables revenues, with the main lines performing to expectation and the service programme has continued to strengthen. As with the other businesses, however, there has been an underperformance in capital revenues due to budget delays.

Although the Australian Healthcare sector has experienced similar economic and budget pressures to Canada, the businesses have continued to deliver strong growth with underlying revenues increasing by 8%. BGS continued to grow revenues strongly, with smoke evacuation programmes in existing and new accounts providing the main driver for growth. The Chemzyme business acquired last year has been fully integrated into BGS and has extended the scope of the business. DSL consumable revenues are trending in line with expectations and service is performing well; as with all the Healthcare businesses, capital equipment sales are slower.

The a1-group of ***Environmental*** businesses in Europe, which account for ca. 15% of Sector revenues, saw revenues decrease by 1% in UK sterling terms. In the a1-CBISS business, revenues increased by 2% in UK sterling terms with strong growth in gas detection products offsetting reduced revenues from sales of CEMS (continuous emissions monitoring systems). However, these lower revenues were against very strong comparatives and the sector remains buoyant with new Biomass and Energy from Waste (EFW) plants an important part of the UK's energy portfolio as coal fired power stations close. The a1-envirosciences business revenues increased by 5% in Euro terms with strong sales of high end elemental analysers supplied to petrochemical industry customers and environmental laboratories. Across both Environmental businesses, there was strong double digit growth in revenues from Service programmes, which now represent ca. 35% of combined revenues.

## Seals

The Seals businesses are suppliers of hydraulic seals, gaskets, filters, cylinders, components and kits for heavy mobile machinery and industrial equipment.

| | Half Year | | |
|---|---|---|---|
| | **2015** | **2014** | |
| Revenue | **£64.8m** | £54.9m | *+18%* |
| Adjusted operating profit | **£12.0m** | £9.3m | *+29%* |
| Adjusted operating margin | ***18.5%*** | *16.9%* | |

Reported revenues increased by 18% over the prior comparable period. The Seals acquisitions completed last year (Kentek, AB Seals and Ramsay) along with a small initial contribution from the Kubo acquisition (completed in March 2015), added 9% to Sector revenues. The strength of the US dollar, relative to UK sterling, more than offset the weakness in the Euro and Russian Rouble and on an underlying basis, after adjusting for currency and acquisitions, revenues increased by 8%.

Adjusted operating margins in the Seals businesses increased by 160 bps to 18.5%, reflecting the operational leverage from increased revenues as well as the benefits gained from prior year investments in facilities, warehouse automation and IT systems.

The ***Aftermarket*** businesses, which account for ca. 55% of Sector revenues, increased revenues by 7% on an underlying basis, after adjusting for currency effects and acquisitions.

In North America, the HFPG Aftermarket businesses delivered strong underlying revenue growth in the core Hercules business, offset by weaker sales in the HKX business. Domestically, Hercules benefitted from a steadily growing US economy and less severe winter weather compared with the prior year, resulting in increased spending on Infrastructure and in other heavy mobile machinery markets. In the international markets, revenues were relatively flat with increased activity in the Mexican market offset by lower sales in South American markets. HKX increased revenues in the US market, but this was more than offset by weakness in their Canadian and Latin American markets, where sales of excavators were impacted by the strength of the US dollar and continued weakness in the mining industries.

In Europe, FPE Seals delivered underlying revenue growth of 4% and also benefitted from the small acquisition last year of AB Seals and from taking on sales responsibility for the Bulldog branded products in International markets, outside the Americas. Further progress was made towards creating a more substantial unified European Aftermarket Seals Group, centred on FPE Seals, with investment in a new 34,000 sq.ft. office and warehouse facility in Darlington in the UK. This is currently in construction and is due to be completed in the second half of the year when it will form the operational hub for the FPE Seals operations in Europe.

Since its acquisition in January 2014, Kentek has experienced challenging market conditions in its core markets in Russia, Finland and the Baltic States, with pressures on the region's economies caused by lower global demand in the Oil & Gas and Mining sectors and from the negative impact of US and EU sanctions on Russia. In spite of both these challenges and the significant devaluation of the Russian Rouble, Kentek has proved very resilient, particularly in Russia, where the core St Petersburg operation continued to trade well with sales volumes up by ca. 35%. Against the comparable period last year, sales have reduced by only 9% in Euro terms and operating margins have improved with higher gross margins and lower operating costs. During the period, Kentek relocated its St Petersburg operations to a new and much improved facility which will be the operational hub for the company's Russian operations and will provide a good platform from which to grow its business and improve operational efficiencies.

The ***Industrial OEM*** businesses, which account for the remaining 45% of Sector revenues, increased revenues by 9% on an underlying basis, after adjusting for currency effects and acquisitions.

In North America, the RT Dygert, All Seals and J Royal businesses performed well in a generally positive US industrial economy and increased revenues by 10% in US dollar terms. The growth was primarily driven by strong revenues earned from Industrial OEMs where the businesses were successful in qualifying several new products for new and existing customers, benefitting from prior year investments in technical sales resource and higher level technical approvals. In November 2014, All Seals opened a new branch operation in Houston, Texas to serve this important and rapidly expanding economic region.

In Europe, M Seals increased revenues by 7% on an underlying basis, with flat sales in Denmark, strong double-digit growth in Sweden and some recovery in sales of large bearing seals to Chinese wind power customers. In the UK, M Seals has been boosted by a full half year contribution from Ramsay Services, which was acquired in December 2013 to open up new growth opportunities. Ramsay has delivered strong year-on-year growth since acquisition and has strengthened M Seals' capabilities in the Oil & Gas and Aerospace markets.

In March 2015, the Group completed the acquisition of the Kubo Group, a leading supplier of seals, O-rings, gaskets and moulded rubber parts to a diverse base of industrial customers in Switzerland and Austria. Kubo specialises in high value products that address harsh environments and complex applications and that require a high degree of technical knowledge and support. The acquisition will also open up opportunities for cross-selling of products with Diploma's other Industrial OEM Seals businesses, giving them access to Kubo's high precision manufactured parts.

## Controls

The Controls businesses are suppliers of specialised wiring, connectors, fasteners and control devices for technically demanding applications.

| | Half Year | | |
|---|---|---|---|
| | **2015** | **2014** | |
| Revenue | **£46.4m** | £47.1m | *-1%* |
| Adjusted operating profit | **£7.3m** | £7.9m | *-8%* |
| Adjusted operating margin | ***15.7%*** | *16.8%* | |

Reported revenues decreased by 1% against the comparable period. The acquisition last year of SFC added 5% to Sector revenues, but the weaker Euro reduced revenues by 1% on translation to UK sterling. On an underlying basis, after adjusting for currency effects and acquisitions, underlying Sector revenues decreased by 5%.

Gross margins have remained stable, but operating costs as a percentage of revenue have increased due to reverse operating leverage and led to a reduced adjusted operating margin of 15.7%.

The ***Interconnect*** businesses account for ca. 75% of Sector revenues. These businesses supply high performance wiring, harness components, connectors and fasteners, used in technically demanding applications, often in harsh environments. In the half year, Interconnect revenues were unchanged in UK sterling terms, but after adjusting for the SFC acquisition and for currency effects, underlying revenues decreased by 5%.

In the IS-Group's UK operations, revenues were broadly flat with softer Industrial markets in the UK and in the Eurozone countries, which the IS-Group serves as a Master Distributor for certain key suppliers. Defence and Aerospace revenues were unchanged from last year as project wins were broadly offset by interruptions in customer programmes as some projects were completed and other new projects rescheduled. Motorsport revenues showed modest growth with new business in France and Japan (the GT Series) replacing the lost business from teams exiting F1. Energy revenues showed good growth with strong demand for sub-sea and generator cables more than offsetting softer demand in the markets for industrial batteries and power supply products. Growth initiatives to broaden the product range and generate growth are starting to gain traction with increased sales of relays and connectors, avionics cables and lightweight braided products for energy and defence applications.

In Germany, IS-Sommer and Filcon reported a 4% reduction in local Euro revenues which on translation to UK sterling represented a 13% reduction in revenues. There was general weakness in the Industrial sector in the first quarter and though there was some improvement in the second quarter, weak customer end markets led to delayed orders and held back demand. The Medical, Defence and the Military Aerospace markets in particular remained challenging with revenues down and several projects postponed. The Energy sector however delivered good growth in revenues, benefitting from another mild winter and from sales development efforts across all regions in Germany.

The Specialty Fasteners business (Clarendon and SFC) increased revenues by 20% over the prior year; however, after adjusting for the acquisition of SFC, underlying revenues decreased by 13% against a very strong comparative. In the first half of last year, Clarendon reported a 30% increase in revenues with equally strong growth in its core Motorsport and Civil Aerospace sectors. However a combination of reduced engine development budgets, some changes in purchasing practices and a reduction in the number of F1 teams, all contributed to lower demand in the first half of this year. In Civil Aerospace, customer changes to aircraft seating design and to build schedules, along with the implementation of a large new lineside supply project for Clarendon's largest customer all temporarily impacted demand during the period. The performance of SFC since acquisition last June has been well in line with our expectations and this acquisition has successfully broadened the industrial customer base of the Specialty Fasteners business.

The Hawco Group of ***Fluid Controls*** businesses accounts for ca. 25% of Sector revenues and supplies temperature, pressure and fluid control products, with a high proportion of its products being supplied to the Food and Beverage industry.

Hawco Group revenues decreased by 5% in UK sterling terms, with the reduction in capital spend by major food retailers presenting a strong headwind for sales of Refrigeration equipment. The Industrial OEM revenues were also impacted by reduced demand for fire detection products in the Oil & Gas industry, although sales to the automotive industry have improved. Good growth has also been generated from the Contractor segment of the business, where maintenance and repair consumables are supplied to facilities management companies and air-conditioning contractors. Both Hawco and Abbeychart are implementing key initiatives to generate growth in the generally sluggish markets. In particular, the Export sales resource focused on the US and European markets has been strengthened and specific market segments, including craft brewing and coffee vending, have been targeted with improved e-commerce offerings.

## FINANCE

### Free cash flow

The Group generated free cash flow of £12.4m (2014: £13.0m) during the half year, with the reduction against last year arising from an increase of £2.0m in capital expenditure to £2.8m (2014: £0.8m).

Operating cash flow increased by 8% to £24.4m (2014: £22.6m), after investing £6.8m in working capital compared with £6.6m in the comparable period. The Group's metric of working capital to revenue remains high at 18.2% compared with a historical rate of ca. 16% at 30 September, when working capital is generally at its lowest point. An increase in the amount of inventory being held by a number of businesses is the key driver to the high working capital and programmes have been implemented to target a reduction in inventory by the year end.

Tax payments in the first half of the year increased marginally to £7.3m (2014: £7.0m), having benefited again from tax relief on the exercise of outstanding LTIP awards in 2014. The Company also made a contribution of £1.7m (2014: £1.8m) to the Diploma Employee Benefit Trust in connection with outstanding LTIP awards, which included a £0.7m (2014: Nil) contribution to the Employee Benefit Trust to allow them to acquire shares in the Company.

Capital expenditure of £2.8m (2014: £0.8m) included £1.1m on financing the construction of a new warehouse and office facilities for FPE Seals, based in Darlington. The total project, which is due to be completed in August 2015, is expected to cost £3.2m and it is intended that this facility will then be sold and leased back to FPE Seals. The remaining £1.7m of capital expenditure included £0.6m on machinery and tooling in the Seals businesses, including two new seal cutting machines in Hercules. In the Healthcare businesses £0.6m was spent on acquiring field equipment in support of customer contracts at hospitals. The remaining £0.5m was spent across the Group on various upgrades to the IT infrastructure, including £0.2m on implementing the new ERP project in the Canadian Healthcare businesses.

### Net debt

At 31 March 2015, the Group had net debt of £14.9m, comprising borrowings of £33.5m offset by cash balances of £18.6m, compared with net cash of £21.3m at 30 September 2014. The reduction in net cash funds of £36.2m was after spending £35.0m (2014: £11.4m) on acquisitions and £13.3m (2014: £12.2m) on dividends paid to ordinary and minority shareholders.

Acquisition expenditure of £35.0m comprised £34.1m on acquiring new businesses, £0.6m on acquiring minority interests and £0.3m on deferred consideration, as described further in notes 10 and 11 to the financial statements.

These acquisitions were funded out of existing cash resources and from the utilisation of the Group's existing committed revolving bank facility. In March 2015, the Group exercised its accordion option to increase this bank facility from £25m to £40m to fund the acquisition of the Kubo Group. This option was exercised on the same terms as the existing facility and the Group retains an option to extend this accordion facility by a further £10m up to the maximum committed revolver bank facility of £50m.

On the basis of current financial projections and after considering sensitivities, the Directors are confident that the Group has sufficient resources to fund its operations for the foreseeable future. The condensed set of consolidated financial statements has therefore been prepared on a going concern basis.

### Exchange rates

A significant proportion of the Group's revenues (ca. 75%) are derived from businesses located outside the UK, principally in the US, Canada, Australia and Northern Europe. With UK sterling strengthening against most of the major currencies in which the Group operates (other than the US dollar), the impact on the Group of translating the results of the Group's overseas businesses into UK sterling has been to reduce Group revenues by £3.0m and Group adjusted operating profit by £0.7m, compared with the same period last year.

The Healthcare businesses have also been impacted by the substantial depreciation of the Canadian dollar and Australian dollar against the currencies in which these businesses purchase their products. These transactional exposures impact the gross margin of these businesses, although a proportion of this exposure is hedged through the use of forward exchange contracts. These contracts, which were largely taken out last year, have helped mitigate some of the depreciation in these currencies in the first half and will largely continue to do so in the second half of the year. However the impact on gross margins in the following year ending 30 September 2016 will again increase as these contracts begin to reflect the exchange rates when these hedge contracts are replaced. Transactional currency exposures in the rest of the Group's businesses have generally been mitigated by currency hedging contracts and therefore have not materially impacted the reported results in this period.

## RISKS AND UNCERTAINTIES

The risks and uncertainties which may have the largest impact on performance in the second half of the year are the same as those described in detail in pages 34-37 of the 2014 Annual Report & Accounts. In summary these are:

- Strategic risks – a downturn in major markets, loss of key suppliers and/or major customers, product liability and loss of key personnel;

- Operational risks – major damage to premises, loss of IT systems; and

- Financial and Accounting risks – foreign currency risk and inventory obsolescence.

The Directors consider that the principal risks and uncertainties have not changed since the publication of the 2014 Annual Report & Accounts and that they remain relevant for the second half of the financial year. In particular, since a large proportion of the Group's revenue and profits are generated overseas, movements in the foreign exchange rates of these territories remain a principal risk to financial performance.

## CURRENT TRADING AND OUTLOOK

The Group has a strong and proven business model which aims to deliver "GDP plus" organic revenue growth, with carefully selected acquisitions accelerating the growth to the target double-digit level. While headwinds to organic growth remain in certain key markets, the acquisition pipeline remains encouraging and the Group will continue to focus on bringing these opportunities to completion.

**BM Thompson**

Chief Executive Officer
11 May 2015

## Responsibility Statement of the Directors in respect of the Half Year Report 2015

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU; and
- the Half Year Report includes a fair review of the information required by:

    a) DTR4.2.7R of the Disclosure and Transparency Rules, being an indication of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of consolidated financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

    b) DTR4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report & Accounts that could do so.

The Directors of Diploma PLC and their respective responsibilities are listed in the Annual Report & Accounts for 2014 and on the Company's website at *www.diplomaplc.com*.

**By Order of the Board**

| | |
|---|---|
| **BM Thompson** | **NP Lingwood** |
| Chief Executive Officer | Group Finance Director |
| 11 May 2015 | 11 May 2015 |

# Condensed Consolidated Income Statement
## For the six months ended 31 March 2015

| | Note | **Unaudited 31 March 2015 £m** | Unaudited 31 March 2014 £m | Audited 30 Sept 2014 £m |
|---|---|---|---|---|
| **Revenue** | 3 | **163.2** | 148.6 | 305.8 |
| Cost of sales | | **(103.9)** | (93.9) | (194.2) |
| **Gross profit** | | **59.3** | 54.7 | 111.6 |
| Distribution costs | | **(3.5)** | (3.1) | (6.4) |
| Administration costs | | **(29.9)** | (27.2) | (54.9) |
| **Operating profit** | 3 | **25.9** | 24.4 | 50.3 |
| Financial income/(expense), net | 4 | **0.1** | (0.2) | (0.5) |
| **Profit before tax** | | **26.0** | 24.2 | 49.8 |
| Tax expense | 5 | **(7.3)** | (7.2) | (13.7) |
| **Profit for the period** | | **18.7** | 17.0 | 36.1 |
| Attributable to: | | | | |
| Shareholders of the Company | | **18.3** | 16.8 | 35.5 |
| Minority interests | | **0.4** | 0.2 | 0.6 |
| | | **18.7** | 17.0 | 36.1 |
| **Earnings per share** | | | | |
| Basic and diluted earnings | 6 | **16.2p** | 14.9p | 31.4p |

| **Alternative Performance Measures (note 2)** | Note | **31 March 2015 £m** | 31 March 2014 £m | 30 Sept 2014 £m |
|---|---|---|---|---|
| Operating profit | | **25.9** | 24.4 | 50.3 |
| Add: Acquisition related charges | 9 | **3.7** | 3.4 | 6.4 |
| **Adjusted operating profit** | 3 | **29.6** | 27.8 | 56.7 |
| Deduct: Net interest expense | 4 | **(0.3)** | (0.2) | (0.5) |
| **Adjusted profit before tax** | | **29.3** | 27.6 | 56.2 |
| **Adjusted earnings per share** | 6 | **18.6p** | 17.5p | 36.1p |

# Condensed Consolidated Statement of Income and Other Comprehensive Income
**For the six months ended 31 March 2015**

| | **Unaudited 31 March 2015 £m** | Unaudited 31 March 2014 £m | Audited 30 Sept 2014 £m |
|---|---|---|---|
| **Profit for the period** | **18.7** | 17.0 | 36.1 |
| **Items that will not be reclassified to Consolidated Income Statement** | | | |
| Actuarial gains on defined benefit pension schemes | **-** | - | 0.3 |
| Deferred tax on items that will not be reclassified | **-** | - | - |
| | **-** | - | 0.3 |
| **Items that may be reclassified to Consolidated Income Statement** | | | |
| Exchange rate adjustments on foreign currency net investments | **(2.1)** | (8.4) | (8.7) |
| Gain on fair value of cash flow hedges | **1.6** | 0.1 | 0.4 |
| Deferred tax on items that may be reclassified | **(0.4)** | - | (0.1) |
| | **(0.9)** | (8.3) | (8.4) |
| **Total Comprehensive Income for the period** | **17.8** | 8.7 | 28.0 |
| Attributable to: | | | |
| Shareholders of the Company | **17.8** | 8.5 | 27.7 |
| Minority interests | **-** | 0.2 | 0.3 |
| | **17.8** | 8.7 | 28.0 |

## Condensed Consolidated Statement of Changes in Equity
### For the six months ended 31 March 2015

| | Note | Share capital | Transl. reserve | Hedging reserve | Retained earnings | Share -holders' equity | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m | £m | £m |
| **At 1 October 2013** | | 5.7 | 16.2 | - | 155.0 | **176.9** | 1.4 | **178.3** |
| Total comprehensive income | | - | (8.4) | 0.1 | 16.8 | **8.5** | 0.2 | **8.7** |
| Acquisition of businesses | | - | - | - | - | **-** | 1.5 | **1.5** |
| Minority interest put option | | - | - | - | (1.5) | **(1.5)** | - | **(1.5)** |
| Minority interest acquired | | - | - | - | 0.2 | **0.2** | (0.2) | **-** |
| Share-based payments | | - | - | - | 0.4 | **0.4** | - | **0.4** |
| Purchase of own shares | | - | - | - | (1.8) | **(1.8)** | - | **(1.8)** |
| Dividends | | - | - | - | (12.1) | **(12.1)** | (0.1) | **(12.2)** |
| **At 31 March 2014** | | 5.7 | 7.8 | 0.1 | 157.0 | **170.6** | 2.8 | **173.4** |
| Total comprehensive income | | - | (0.3) | 0.2 | 19.3 | **19.2** | 0.1 | **19.3** |
| Acquisition of businesses | | - | - | - | - | **-** | 0.8 | **0.8** |
| Minority interest put option | | - | - | - | (0.8) | **(0.8)** | - | **(0.8)** |
| Minority interests acquired | | - | - | - | 0.7 | **0.7** | (0.7) | **-** |
| Share-based payments | | - | - | - | 0.3 | **0.3** | - | **0.3** |
| Tax on items recognised directly in equity | | - | - | - | 0.5 | **0.5** | - | **0.5** |
| Purchase of own shares | | - | - | - | - | **-** | - | **-** |
| Dividends | | - | - | - | (6.1) | **(6.1)** | (0.1) | **(6.2)** |
| **At 30 September 2014** | | 5.7 | 7.5 | 0.3 | 170.9 | **184.4** | 2.9 | **187.3** |
| Total comprehensive income | | - | (2.1) | 1.2 | 18.7 | **17.8** | - | **17.8** |
| Acquisition of businesses | 10 | - | - | - | - | **-** | 3.2 | **3.2** |
| Minority interest put option | 11 | - | - | - | (3.2) | **(3.2)** | - | **(3.2)** |
| Minority interests acquired | 11 | - | - | - | 1.2 | **1.2** | (1.2) | **-** |
| Share-based payments | | - | - | - | 0.4 | **0.4** | - | **0.4** |
| Purchase of own shares | | - | - | - | (1.7) | **(1.7)** | - | **(1.7)** |
| Dividends | | - | - | - | (13.1) | **(13.1)** | (0.2) | **(13.3)** |
| **At 31 March 2015** | | **5.7** | **5.4** | **1.5** | **173.2** | **185.8** | **4.7** | **190.5** |

## Condensed Consolidated Statement of Financial Position
**As at 31 March 2015**

| | Note | **Unaudited 31 March 2015 £m** | Unaudited 31 March 2014 £m | Audited 30 Sept 2014 £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | 9 | **91.3** | 78.8 | 80.2 |
| Acquisition intangible assets | 9 | **43.1** | 29.7 | 28.6 |
| Other intangible assets | | **0.8** | 0.8 | 0.8 |
| Investment | | **0.7** | 0.7 | 0.7 |
| Property, plant and equipment | | **22.7** | 13.0 | 13.1 |
| Deferred tax assets | | **1.4** | 2.0 | 0.9 |
| | | **160.0** | 125.0 | 124.3 |
| **Current assets** | | | | |
| Inventories | | **62.7** | 52.3 | 54.1 |
| Asset in course of construction | 3 | **1.1** | - | - |
| Trade and other receivables | | **55.5** | 47.7 | 46.3 |
| Cash and cash equivalents | 8 | **18.6** | 13.0 | 21.3 |
| | | **137.9** | 113.0 | 121.7 |
| **Current liabilities** | | | | |
| Trade and other payables | | **(48.7)** | (43.2) | (43.9) |
| Current tax liabilities | | **(4.3)** | (2.5) | (2.3) |
| Other liabilities | 11 | **(1.0)** | (2.1) | (1.6) |
| Borrowings | 8 | **(33.5)** | (5.0) | - |
| | | **(87.5)** | (52.8) | (47.8) |
| **Net current assets** | | **50.4** | 60.2 | 73.9 |
| **Total assets less current liabilities** | | **210.4** | 185.2 | 198.2 |
| **Non-current liabilities** | | | | |
| Retirement benefit obligations | | **(8.1)** | (4.5) | (4.3) |
| Other liabilities | 11 | **(5.1)** | (3.0) | (2.4) |
| Deferred tax liabilities | | **(6.7)** | (4.3) | (4.2) |
| **Net assets** | | **190.5** | 173.4 | 187.3 |
| **Equity** | | | | |
| Share capital | | **5.7** | 5.7 | 5.7 |
| Translation reserve | | **5.4** | 7.8 | 7.5 |
| Hedging reserve | | **1.5** | 0.1 | 0.3 |
| Retained earnings | | **173.2** | 157.0 | 170.9 |
| **Total shareholders' equity** | | **185.8** | 170.6 | 184.4 |
| Minority interests | | **4.7** | 2.8 | 2.9 |
| **Total equity** | | **190.5** | 173.4 | 187.3 |

## Condensed Consolidated Cash Flow Statement
### For the six months ended 31 March 2015

| | Note | **Unaudited 31 March 2015 £m** | Unaudited 31 March 2014 £m | Audited 30 Sept 2014 £m |
|---|---|---|---|---|
| **Operating profit** | | **25.9** | 24.4 | 50.3 |
| Acquisition related charges | 7 | **3.7** | 3.4 | 6.4 |
| Non-cash items | 7 | **1.6** | 1.4 | 2.9 |
| Increase in working capital | | **(6.8)** | (6.6) | (4.6) |
| **Cash flow from operating activities** | | **24.4** | 22.6 | 55.0 |
| Interest paid, net | | **(0.2)** | (0.1) | (0.3) |
| Tax paid | | **(7.3)** | (7.0) | (13.0) |
| **Net cash from operating activities** | | **16.9** | 15.5 | 41.7 |
| **Cash flow from investing activities** | | | | |
| Acquisition of businesses (including expenses) | 10 | **(34.1)** | (11.0) | (14.9) |
| Deferred consideration paid | 11 | **(0.3)** | (0.1) | (0.1) |
| Purchase of property, plant and equipment | | **(1.5)** | (0.6) | (1.9) |
| Assets in course of construction | | **(1.1)** | - | - |
| Purchase of other intangible assets | | **(0.2)** | (0.2) | (0.3) |
| Proceeds from sale of property, plant and equipment | | **-** | 0.1 | 0.1 |
| **Net cash used in investing activities** | | **(37.2)** | (11.8) | (17.1) |
| **Cash flow from financing activities** | | | | |
| Acquisition of minority interests | 11 | **(0.6)** | (0.3) | (1.5) |
| Dividends paid to shareholders | | **(13.1)** | (12.1) | (18.2) |
| Dividends paid to minority interests | | **(0.2)** | (0.1) | (0.2) |
| Purchase of own shares by EBT | | **(0.7)** | - | - |
| Notional purchase of own shares on exercise of share options | | **(1.0)** | (1.8) | (1.8) |
| Proceeds of borrowings, net | 8 | **33.5** | 5.0 | - |
| **Net cash generated / (used) in financing activities** | | **17.9** | (9.3) | (21.7) |
| **Net (decrease) / increase in cash and cash equivalents** | 8 | **(2.4)** | (5.6) | 2.9 |
| Cash and cash equivalents at beginning of period | | **21.3** | 19.3 | 19.3 |
| Effect of exchange rates on cash and cash equivalents | | **(0.3)** | (0.7) | (0.9) |
| **Cash and cash equivalents at end of period** | | **18.6** | 13.0 | 21.3 |

| **Alternative Performance Measures (note 2)** | | **31 March 2015 £m** | 31 March 2014 £m | 30 Sept 2014 £m |
|---|---|---|---|---|
| Net (decrease)/increase in cash and cash equivalents | | **(2.4)** | (5.6) | 2.9 |
| Add: | Dividends paid to shareholders | **13.1** | 12.1 | 18.2 |
| | Dividends paid to minority interests | **0.2** | 0.1 | 0.2 |
| | Acquisition of businesses and minority interests | **34.7** | 11.3 | 16.4 |
| | Deferred consideration paid | **0.3** | 0.1 | 0.1 |
| Less: | Proceeds of borrowings, net | **(33.5)** | (5.0) | - |
| **Free cash flow** | | **12.4** | 13.0 | 37.8 |
| Cash and cash equivalents | | **18.6** | 13.0 | 21.3 |
| Borrowings | | **(33.5)** | (5.0) | - |
| **Net (debt) / cash** | | **(14.9)** | 8.0 | 21.3 |

# Notes to the Condensed Consolidated Financial Statements
**For the six months ended 31 March 2015**

## 1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

Diploma PLC (the "Company") is a company registered and domiciled in England and Wales. The condensed set of consolidated financial statements (the "financial statements") for the six months ended 31 March 2015 comprises the Company and its subsidiaries (together referred to as the "Group").

The comparative figures for the financial year ended 30 September 2014 are not the Group's statutory accounts for that financial year within the meaning of section 434 of the Companies Act 2006. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The figures for the six months ended 31 March 2014 were extracted from the 2014 Half Year Report, which was unaudited.

The Group's audited consolidated financial statements for the year ended 30 September 2014 are available on the Company's website (*www.diplomaplc.com*) or upon request from the Company's registered office at Diploma PLC, 12 Charterhouse Square, London, EC1M 6AX.

### 1.1 Statement of compliance
The financial statements included in this Half Year Announcement for the six months ended 31 March 2015 have been prepared on a going concern basis and in accordance with *IAS 34, Interim Financial Reporting* as adopted by the European Union and the Disclosure and Transparency Rules ("DTR") of the Financial Conduct Authority. The financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Group's audited consolidated financial statements for the year ended 30 September 2014.

The Half Year financial statements were approved by the Board of Directors on 11 May 2015; they have not been audited by the Company's auditor.

### 1.2 Significant accounting policies
The accounting policies applied by the Group in this set of financial statements are the same as those applied by the Group in its audited consolidated financial statements for the year ended 30 September 2014, except for the amount included in the Half Year Report in respect of taxation which has been calculated by applying the Directors' best estimate of the annual rates of taxation to taxable profits for the period. In the audited consolidated financial statements for the full year, the taxation balances are based on draft tax computations prepared for each business within the Group.

### 1.3 Estimates and judgements
The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The estimates and judgements made by management in applying the Group's accounting policies and the key sources of uncertainty that have the most significant effect on the amounts included within these financial statements, were the same as those that applied to the Group's audited consolidated financial statements for the year ended 30 September 2014. These are set out on page 97 of the 2014 Annual Report & Accounts.

## 2. ALTERNATIVE PERFORMANCE MEASURES

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

### 2.1 Adjusted operating profit

At the foot of the Condensed Consolidated Income Statement, "adjusted operating profit" is defined as operating profit before amortisation and impairment of acquisition intangible assets, acquisitions expenses, adjustments to deferred consideration (collectively, "acquisition related charges"), the cost of restructuring or rationalisation of operations and the profit or loss relating to the sale of businesses or property. The Directors believe that adjusted operating profit is an important measure of the underlying operational performance of the Group.

### 2.2 Adjusted profit before tax

At the foot of the Condensed Consolidated Income Statement, "adjusted profit before tax" is separately disclosed, being defined as adjusted operating profit, after finance expenses (before fair value remeasurements under IAS 39 in respect of future purchases of minority interests) and before tax. The Directors believe that adjusted profit before tax is an important measure of the underlying performance of the Group.

### 2.3 Adjusted earnings per share

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

### 2.4 Free cash flow

At the foot of the Condensed 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 and consistent measure of the cash flow of the Group, available for future investment.

## 3. BUSINESS SECTOR ANALYSIS

Sector information is presented in this Half Year Announcement in respect of the Group's business Sectors, which is the primary basis of sector reporting. The business Sector reporting format reflects the Group's management and internal reporting structure. The geographic sector reporting represents results by origin. The Group's financial results have not, historically, been subject to significant seasonal trends. In the year ended 30 September 2014, the Group earned 49% of its annual revenues and 49% of its annual adjusted operating profits in the first six months of the year.

| | Revenue | | | Adjusted operating profit | | | Operating profit | | |
|---|---|---|---|---|---|---|---|---|---|
| | **31 Mar 2015 £m** | 31 Mar 2014 £m | 30 Sept 2014 £m | **31 Mar 2015 £m** | 31 Mar 2014 £m | 30 Sept 2014 £m | **31 Mar 2015 £m** | 31 Mar 2014 £m | 30 Sept 2014 £m |
| **By Sector** | | | | | | | | | |
| Life Sciences | **52.0** | 46.6 | 91.4 | **10.3** | 10.6 | 19.7 | **8.6** | 9.4 | 17.4 |
| Seals | **64.8** | 54.9 | 119.8 | **12.0** | 9.3 | 21.7 | **10.4** | 7.5 | 18.5 |
| Controls | **46.4** | 47.1 | 94.6 | **7.3** | 7.9 | 15.3 | **6.9** | 7.5 | 14.4 |
| | **163.2** | 148.6 | 305.8 | **29.6** | 27.8 | 56.7 | **25.9** | 24.4 | 50.3 |
| **By Geographic Area** | | | | | | | | | |
| United Kingdom | **43.8** | 41.9 | 85.7 | **7.0** | 7.0 | 13.8 | | | |
| Rest of Europe | **34.5** | 24.5 | 53.2 | **5.7** | 3.6 | 7.9 | | | |
| North America | **84.9** | 82.2 | 166.9 | **16.9** | 17.2 | 35.0 | | | |
| | **163.2** | 148.6 | 305.8 | **29.6** | 27.8 | 56.7 | | | |

In the six months ended 31 March 2015 the newly acquired businesses of TPD and Kubo as described in Note 10, contributed £7.4m to revenue, £1.1m to adjusted operating profit and £0.7m to operating profit, after acquisition related costs of £0.4m. The results of these businesses are included within the Life Sciences and the Seals Sectors and within the geographic area of Rest of Europe.

| | Total assets | | | Total liabilities | | | Net assets | | |
|---|---|---|---|---|---|---|---|---|---|
| | **31 Mar 2015 £m** | 31 Mar 2014 £m | 30 Sept 2014 £m | **31 Mar 2015 £m** | 31 Mar 2014 £m | 30 Sept 2014 £m | **31 Mar 2015 £m** | 31 Mar 2014 £m | 30 Sept 2014 £m |
| **By Sector** | | | | | | | | | |
| Life Sciences | **95.4** | 84.6 | 83.6 | **(14.6)** | (14.5) | (14.7) | **80.8** | 70.1 | 68.9 |
| Seals | **119.9** | 81.3 | 82.5 | **(22.8)** | (11.8) | (14.6) | **97.1** | 69.5 | 67.9 |
| Controls | **56.7** | 54.4 | 54.9 | **(16.2)** | (16.8) | (14.9) | **40.5** | 37.6 | 40.0 |
| Unallocated assets/(liabilities) | **25.9** | 17.7 | 25.0 | **(53.8)** | (21.5) | (14.5) | **(27.9)** | (3.8) | 10.5 |
| | **297.9** | 238.0 | 246.0 | **(107.4)** | (64.6) | (58.7) | **190.5** | 173.4 | 187.3 |

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, UK retirement benefit obligations, deferred tax liabilities and corporate liabilities that cannot be allocated on a reasonable basis to a business sector. These items that cannot be allocated on a reasonable basis to a business sector are shown collectively as "unallocated assets/ (liabilities)".

## 3. BUSINESS SECTOR ANALYSIS (continued)

| | Capital expenditure | | | Depreciation | | |
|---|---|---|---|---|---|---|
| | **31 Mar 2015 £m** | 31 Mar 2014 £m | 30 Sept 2014 £m | **31 Mar 2015 £m** | 31 Mar 2014 £m | 30 Sept 2014 £m |
| **By Sector** | | | | | | |
| Life Sciences | **0.9** | 0.5 | 1.2 | **0.8** | 0.6 | 1.3 |
| Seals | **0.6** | 0.2 | 0.5 | **0.4** | 0.4 | 0.7 |
| Controls | **0.2** | 0.1 | 0.5 | **0.2** | 0.2 | 0.5 |
| | **1.7** | 0.8 | 2.2 | **1.4** | 1.2 | 2.5 |

During the period, a further £1.1m of capital expenditure was also incurred in connection with the on-going construction of a new facility at FPE Seals in Darlington. This expenditure has been included in the Condensed Consolidated Statement of Financial Position as an “Asset in course of construction”.

## 4. FINANCIAL INCOME/(EXPENSE), NET

| | **31 March 2015 £m** | 31 March 2014 £m | 30 Sept 2014 £m |
|---|---|---|---|
| **Interest and similar income** | | | |
| - interest receivable on short-term deposits | **-** | - | 0.1 |
| **Interest expense and similar charges** | | | |
| - bank facility and commitment fees | **(0.1)** | (0.1) | (0.4) |
| - interest payable on bank borrowings | **(0.1)** | - | - |
| - notional interest on defined benefit pension scheme | **(0.1)** | (0.1) | (0.2) |
| | **(0.3)** | (0.2) | (0.6) |
| **Net interest expense** | **(0.3)** | (0.2) | (0.5) |
| - fair value remeasurements of put options (note 11) | **0.4** | - | - |
| **Financial income/(expense), net** | **0.1** | (0.2) | (0.5) |

## 5. TAXATION

| | **31 March 2015 £m** | 31 March 2014 £m | 30 Sept 2014 £m |
|---|---|---|---|
| UK corporation tax | **1.7** | 1.4 | 2.5 |
| Overseas tax | **5.6** | 5.8 | 11.2 |
| **Total tax on profit for the period** | **7.3** | 7.2 | 13.7 |

Taxation on profits before tax has been calculated by applying the Directors’ best estimate of the annual rates of taxation to taxable profits for the period. The effective rate of taxation on profit before tax for the period decreased to 28.1% (2014: 29.8%). The Group’s adjusted effective rate of tax on adjusted profit before tax decreased to 27.0% (2014: 27.9%) largely driven by a further reduction in the UK corporate tax rate to 20% from 21% in 2015 and also reflecting a larger contribution to profits before tax this year from the acquired businesses that are taxed at lower tax rates.

## 6. 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 period of 112,995,991 (2014: 112,839,759) and the profit for the period attributable to shareholders of £18.3m (2014: £16.8m). There were no potentially dilutive shares.

**Adjusted earnings per share**
Adjusted earnings per share, defined in note 2, are calculated as follows:

| | **31 Mar 2015 pence per share** | 31 Mar 2014 pence per share | 30 Sept 2014 pence per share | **31 Mar 2015 £m** | 31 Mar 2014 £m | 30 Sept 2014 £m |
|---|---|---|---|---|---|---|
| **Profit before tax** | | | | **26.0** | 24.2 | 49.8 |
| Tax expense | | | | **(7.3)** | (7.2) | (13.7) |
| Minority interests | | | | **(0.4)** | (0.2) | (0.6) |
| **Earnings for the period attributable to shareholders of the Company** | **16.2** | 14.9 | 31.4 | **18.3** | 16.8 | 35.5 |
| Acquisition related charges | **3.3** | 3.0 | 5.7 | **3.7** | 3.4 | 6.4 |
| Fair value remeasurements of put options | **(0.4)** | - | - | **(0.4)** | - | - |
| Tax effects on acquisition related charges and fair value remeasurements | **(0.5)** | (0.4) | (1.0) | **(0.6)** | (0.5) | (1.1) |
| **Adjusted earnings** | **18.6** | 17.5 | 36.1 | **21.0** | 19.7 | 40.8 |

## 7. RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES

| | **31 March 2015 £m** | 31 March 2014 £m | 30 Sept 2014 £m |
|---|---|---|---|
| **Operating profit** | **25.9** | 24.4 | 50.3 |
| Acquisition related charges (note 9) | **3.7** | 3.4 | 6.4 |
| **Adjusted operating profit** | **29.6** | 27.8 | 56.7 |
| Depreciation or amortisation of tangible and other intangible assets | **1.4** | 1.2 | 2.5 |
| Share-based payments expense | **0.4** | 0.4 | 0.7 |
| Cash paid into defined benefit schemes | **(0.2)** | (0.2) | (0.3) |
| **Non-cash items** | **1.6** | 1.4 | 2.9 |
| Increase in inventories | **(4.4)** | (3.9) | (4.6) |
| Increase in trade and other receivables | **(2.4)** | (5.4) | (3.1) |
| Increase in trade and other payables | **-** | 2.7 | 3.1 |
| **Increase in working capital** | **(6.8)** | (6.6) | (4.6) |
| **Cash flow from operating activities, before acquisition expenses** | **24.4** | 22.6 | 55.0 |

## 8. NET DEBT

The movement in net debt during the period is as follows:

| | **31 March 2015 £m** | 31 March 2014 £m | 30 Sept 2014 £m |
|---|---|---|---|
| Net (decrease)/increase in cash and cash equivalents | **(2.4)** | (5.6) | 2.9 |
| Increase in borrowings | **(33.5)** | (5.0) | - |
| | **(35.9)** | (10.6) | 2.9 |
| Effect of exchange rates | **(0.3)** | (0.7) | (0.9) |
| **Movement in net (debt)/cash** | **(36.2)** | (11.3) | 2.0 |
| Net cash at beginning of period | **21.3** | 19.3 | 19.3 |
| **Net (debt)/cash at end of period** | **(14.9)** | 8.0 | 21.3 |
| Comprising: | | | |
| Cash and cash equivalents | **18.6** | 13.0 | 21.3 |
| Borrowings | **(33.5)** | (5.0) | - |
| **Net (debt)/cash at end of period** | **(14.9)** | 8.0 | 21.3 |

The Group has a committed £25m multi-currency revolving facility, together with an option to increase this by a further £25m (subject to market pricing) which expires on 25 June 2017. On 4 March 2015, the Group exercised the option to increase the committed facility by £15m to £40m.

At 31 March 2015, the Group had utilised £33.5m of this facility which it currently intends to repay within the next twelve months. Interest on this facility remains unchanged at 120bps over LIBOR.

## 9. GOODWILL AND INTANGIBLE ASSETS

| | **Goodwill £m** | **Acquisition intangible assets £m** |
|---|---|---|
| At 1 October 2013 | 78.5 | 26.7 |
| Acquisitions | 4.7 | 7.2 |
| Amortisation charge | - | (2.7) |
| Exchange adjustments | (4.4) | (1.5) |
| At 31 March 2014 | 78.8 | 29.7 |
| Acquisitions | 1.3 | 1.8 |
| Amortisation charge | - | (2.9) |
| Exchange adjustments | 0.1 | - |
| At 30 September 2014 | 80.2 | 28.6 |
| Acquisitions (note 10) | 12.6 | 18.2 |
| Adjustment to acquisitions in prior year | 0.1 | 0.2 |
| Amortisation charge | - | (3.3) |
| Exchange adjustments | (1.6) | (0.6) |
| **At 31 March 2015** | **91.3** | **43.1** |

Goodwill of £12.6m and acquisition intangible assets of £18.2m arose on the acquisition of businesses in the period and related to the Life Sciences and Seals Sectors. Also in the period, the fair value of the acquired assets relating to the prior year acquisition of Kentek were adjusted, resulting in an increase in acquired intangible assets of £0.2m and goodwill of £0.1m. The goodwill represents the product know-how held by employees and the prospects for revenue growth from new customers. The acquisition intangible assets relate to supplier and customer relationships and these assets will be amortised over five to ten years.

Acquisition related charges of £3.7m (2014: £3.4m), which are charged to the Consolidated Income Statement, comprised £3.3m (2014: £2.7m) of amortisation of acquisition intangible assets and £0.4m (2014: £0.7m) of acquisition expenses.

## 10. ACQUISITION OF SUBSIDIARIES

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

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

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

| | KUBO | | TPD | | Total | |
|---|---|---|---|---|---|---|
| | Book value £m | Fair value £m | Book value £m | Fair value £m | Book value £m | Fair value £m |
| Acquisition intangible assets | - | 11.0 | - | 7.2 | - | 18.2 |
| Property, plant and equipment | 6.4 | 8.3 | 0.4 | 0.4 | 6.8 | 8.7 |
| Inventories | 2.6 | 2.6 | 2.1 | 2.0 | 4.7 | 4.6 |
| Trade and other receivables | 3.3 | 3.3 | 1.5 | 1.5 | 4.8 | 4.8 |
| Trade and other payables | (3.9) | (4.3) | (1.0) | (1.6) | (4.9) | (5.9) |
| Deferred tax | - | (1.7) | - | (0.5) | - | (2.2) |
| Retirement benefit obligations | - | (3.9) | - | - | - | (3.9) |
| Net assets acquired | 8.4 | 15.3 | 3.0 | 9.0 | 11.4 | 24.3 |
| Goodwill | 7.9 | 7.4 | - | 5.2 | 7.9 | 12.6 |
| Minority share of net assets (including goodwill) | - | - | - | (3.2) | - | (3.2) |
| | 16.3 | 22.7 | 3.0 | 11.0 | 19.3 | 33.7 |
| | | | | | | |
| Cash paid | | 27.3 | | 9.6 | - | 36.9 |
| Debt acquired | | - | | 1.5 | - | 1.5 |
| Cash acquired | | (4.6) | | (0.1) | - | (4.7) |
| Expenses of acquisition | | 0.2 | | 0.2 | - | 0.4 |
| **Net cash paid, after acquisition expenses** | - | **22.9** | **-** | **11.2** | **-** | **34.1** |
| Less: Expenses of acquisition | - | (0.2) | - | (0.2) | - | (0.4) |
| **Total consideration** | - | **22.7** | **-** | **11.0** | **-** | **33.7** |

The fair values set out above are provisional and will be finalised in the second half of the financial year.

From the date of acquisition to 31 March 2015, the newly acquired TPD business contributed £6.3m to revenue and £0.9m to adjusted operating profit and the newly acquired Kubo 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 £16.3m to revenue and £2.4m to adjusted operating profit. However these amounts should not be viewed as indicative of the results of these businesses that would have occurred, if these acquisitions had been completed at the beginning of the year.

## 11. OTHER LIABILITIES

| | **31 March 2015 £m** | 31 March 2014 £m | 30 Sept 2014 £m |
|---|---|---|---|
| Future purchases of minority interests | **5.1** | 4.0 | 3.5 |
| Deferred consideration | **1.0** | 1.1 | 0.5 |
| | **6.1** | 5.1 | 4.0 |
| Analysed as: | | | |
| Due within one year | **1.0** | 2.1 | 1.6 |
| Due after one year | **5.1** | 3.0 | 2.4 |

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

| | **31 March 2015 £m** | 31 March 2014 £m | 30 Sept 2014 £m |
|---|---|---|---|
| At 1 October | **3.5** | 2.8 | 2.8 |
| Put option entered into during the period | **3.2** | 1.5 | 2.3 |
| Acquisition of minority interest | **(1.2)** | (0.3) | (1.6) |
| Unwinding of discount | **0.2** | 0.1 | 0.1 |
| Fair value remeasurements | **(0.6)** | (0.1) | (0.1) |
| **At end of period** | **5.1** | 4.0 | 3.5 |

At 31 March 2015, the Group retained put options to acquire minority interests in TPD, Kentek and M Seals. As described in note 10, a put/call option was recognised during the period at a value of £3.2m (€4.1m) in respect of the 20% minority interest in TPD, acquired on 6 October 2014. On 19 December 2014, the Group acquired 10% of the minority interest outstanding in Kentek for an initial consideration of £0.6m (€0.8m) with an estimated further amount payable of £0.6m (€0.8m), depending on the performance of the business in the year ended 30 September 2015.

At 31 March 2015, the estimate of the financial liability to acquire the outstanding minority shareholdings was reassessed by the Directors, based on their current estimate of the future performance of these businesses and to reflect foreign exchange rates at 31 March 2015. The put options to acquire the minority interest held in TPD are exercisable in two tranches in 2017 and in 2019; the put option to acquire the minority interest held in M Seals is exercisable in October 2018 and the put option relating to the remaining Kentek minority interest is exercisable in two tranches in 2017 and in 2018.

At 31 March 2015, deferred consideration of £1.0m included £0.9m (€1.2m) payable to the vendor of Kentek in respect of both the outstanding amount relating to the purchase of his minority interest and of the final consideration payable based on the performance of the business in the year ended 31 December 2014. In addition £0.1m (US$0.2m) is payable to the vendor of HPS in respect of the performance of the business in the year ending 30 September 2015. All these amounts are expected to be paid within the next twelve months. During the period, the final instalment of deferred consideration of £0.1m (A$0.2m) was paid to the vendor of BGS and £0.2m was paid to the vendor of Specialty Fasteners & Components.

## 12. DIVIDENDS

| | **31 Mar 2015 pence per share** | 31 Mar 2014 pence per share | 30 Sept 2014 pence per share | **31 Mar 2015 £m** | 31 Mar 2014 £m | 30 Sept 2014 £m |
|---|---|---|---|---|---|---|
| - Final dividend of the prior year, paid in January | **11.6** | 10.7 | 10.7 | **13.1** | 12.1 | 12.1 |
| - Interim dividend, paid in June | **-** | - | 5.4 | **-** | - | 6.1 |
| | **11.6** | 10.7 | 16.1 | **13.1** | 12.1 | 18.2 |

The Directors have declared an increased interim dividend of 5.8p per share (2014: 5.4p) which will be paid on 17 June 2015 to shareholders on the register on 22 May 2015. The total value of the dividend will be £6.6m (2014: £6.1m).

## 13. EXCHANGE RATES

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

| | **Average** | | | **Closing** | | |
|---|---|---|---|---|---|---|
| | **31 March 2015** | 31 March 2014 | 30 Sept 2014 | **31 March 2015** | 31 March 2014 | 30 Sept 2014 |
| US dollar (US$) | **1.54** | 1.65 | 1.66 | **1.48** | 1.67 | 1.62 |
| Canadian dollar (C$) | **1.85** | 1.78 | 1.80 | **1.88** | 1.84 | 1.81 |
| Australian dollar (A$) | **1.90** | 1.82 | 1.81 | **1.94** | 1.80 | 1.85 |
| Euro (€) | **1.32** | 1.20 | 1.23 | **1.38** | 1.21 | 1.28 |