

FOR IMMEDIATE RELEASE

16 November 2015

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2015

## Robust Performance, Acquisition Led Growth

	Audited <u>2015</u> £m	Audited <u>2014</u> £m	
Revenue	333.8	305.8	+9%
Adjusted operating profit <sup>(1)</sup>	60.3	56.7	+6%
Adjusted operating margin <sup>(1)</sup>	18.1%	18.5%	
Adjusted profit before tax <sup>(1),(2)</sup>	59.6	56.2	+6%
Profit before tax	51.8	49.8	+4%
Profit for the period	37.4	36.1	+4%
Free cash flow <sup>(3)</sup>	40.3	37.8	+7%
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	Pence	Pence	
Adjusted earnings per share <sup>(1),(2)</sup>	38.2	36.1	+6%
Basic earnings per share	32.5	31.4	+4%
Total dividend per share	18.2	17.0	+7%

(1) Before acquisition related charges.

(2) Before fair value remeasurements.

(3) Before cash payments on acquisitions and dividends.

## Financial Highlights

- Revenue and adjusted operating profit increased by **9%** and **6%**, respectively.
- Businesses acquired added **11%** to Group revenues; currency movements reduced revenues by **3%**; underlying revenue growth of **1%**.
- Adjusted operating margins reduced by 40bps to **18.1%** reflecting significant transactional currency effects in Healthcare businesses and initial dilution from acquired businesses.
- Adjusted profit before tax and adjusted EPS both increased by **6%** to **£59.6m** and **38.2p**, respectively.
- Free cash flow increased by **7%** to **£40.3m**, after increase in capital expenditure to £4.3m. Net cash funds of **£3.0m** at the end of September 2015.
- Acquisition expenditure of **£37.8m**, over double the amount spent in the prior year. Acquisition of WCIS (ca. £10m) shortly after year end.
- Total dividend increased by **7%** to **18.2p** per share reflecting strong financial position and confidence in Group's growth prospects.

## Operational Highlights

- Life Sciences revenues increased by 4% on an underlying basis despite the Healthcare businesses facing tougher markets as hospitals increased their focus on cost control.
- Seals revenues increased by 4% on an underlying basis as industrial markets slowed in the second half of the year.
- Controls revenues decreased by 5% on an underlying basis reflecting softer European industrial markets and strong prior year comparatives.
- Acquisitions of TPD in Ireland and the UK, Kubo in Switzerland and Austria and Swan Seals in the UK extended the scope of the Group's Healthcare and Seals businesses in Europe, opening up new growth opportunities.
- Acquisition of WCIS for ca. £10m shortly after the year end, extends the Group's Seals business into Australia.

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

"The Group's strong and proven business model delivered robust growth this year, benefitting from a good contribution from acquisitions and despite adverse exchange rate movements. This balance is expected to continue into the coming financial year as the economic headwinds continue to constrain organic growth in the Group's principal markets in North America and Europe, but prospects for further acquisitions remain promising.

While the Board remains cautious on the current macroeconomic backdrop, we remain confident that the Group's resilient business model with a diverse geographic spread of activities and strong financial position, together with a more favourable environment for acquisitions will provide a good platform to deliver further growth in the coming 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](http://www.diplomaplc.com)

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### Notes:

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 Preliminary Announcement.*
2. *Certain statements contained in this Preliminary 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. 1,500 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. **15%** p.a. through a combination of organic growth and acquisitions. Diploma is a member of the FTSE 250 with a market capitalisation of ca. **£700m**.

*Further information on Diploma PLC, together with a copy of this Preliminary Announcement, is available at [www.diplomaplc.com](http://www.diplomaplc.com)*

# **PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR YEAR ENDED 30 SEPTEMBER 2015**

## **CHAIRMAN'S STATEMENT**

I was delighted to be appointed Chairman of your Company in January of this year, following the retirement of John Rennocks from the Board. During his ten years as Chairman, John guided the Company through an extended period of strong and sustained growth which delivered excellent returns to shareholders. I hope that in the years ahead I will be able to maintain this performance through executing the Group's strategy which is designed to deliver strong, double digit growth in earnings and shareholder value over the economic cycle.

Shortly after my appointment, in June of this year, the Board met at the facility of Kubo, our newly acquired Seals business in Switzerland, to review the Group's strategy and to set targets and objectives for each of the Group's Sectors to be delivered over the next three years. After a number of presentations and thorough and challenging reviews with Executive management, the Board was unanimous in supporting the Group's existing strategy of building larger, broader based businesses in our three Sectors. This strategy aims to generate stable "GDP plus" organic revenue growth over the business cycle, sustainable attractive margins and strong cash flow. The Board also confirmed the ambition of accelerating growth through an active acquisition programme, utilising the Group's strong cash resources and experienced management to enhance value.

In September, Iain Henderson informed us of his decision to step down from the Board at the conclusion of the AGM in January 2016 and after an orderly handover of responsibilities, to retire from the Company on 31 March 2016. Iain has been a key member of the Board since 1998 and as Chief Operating Officer since 2005, has played a significant role in developing and implementing the strategy of the Group and in particular, the Seals and Controls Sector businesses. The Board will miss Iain's wise counsel and robust approach to the day to day operational challenges that face all businesses. All of us in the Group wish him a long, healthy and well-earned retirement.

The Board is very supportive of the decision by our CEO, Bruce Thompson to establish over the coming year, a formal Executive Management Group ("EMG") which will report to him. The EMG will comprise the key senior managers of the main business clusters and certain Group functions. Good progress has already been achieved with this development and two senior level recruits have recently joined the Group to strengthen management in key areas. The Board remains confident that the formation of this EMG over the course of 2016 will provide Diploma PLC with a strong and experienced group of senior business and financial managers who have the potential to provide leadership in the coming years.

## **Results**

Group revenues increased in 2015 by 9% to £333.8m (2014: £305.8m), with acquisitions completed during the year contributing £24.2m and adverse currency movements reducing the results of the overseas businesses when translated into UK sterling by £8.1m, when compared with last year. After adjusting for the contribution from these and prior year acquisitions and for currency effects on translation, Group revenues increased by 1% on an underlying basis. Steady underlying revenue growth of ca. 4% in both the Life Sciences and Seals Sectors more than offset a weaker performance from the Controls Sector where underlying revenues declined by 5% against a strong prior year comparative.

Adjusted operating margins remained robust at 18.1% (2014: 18.5%) and adjusted operating profit increased by 6% to £60.3m (2014: £56.7m). Gross margins in the Canadian and Australian Healthcare businesses were again impacted by transactional currency effects, but this was partly mitigated by a more favourable product mix and strong control over operating costs. Adjusted profit before tax increased by 6% to £59.6m (2014: £56.2m) and adjusted earnings per share also increased by 6% to 38.2p (2014: 36.1p).

The Group generated strong free cash flow of £40.3m (2014: £37.8m), with tighter control over working capital providing record operating cash flow of £62.1m (2014: £55.0m). Capital expenditure increased to £4.3m (2014: £2.2m) with increased investment in productive capital represented by facilities, healthcare field equipment and seal cutting machinery and tooling.

It was a much stronger year for acquisition activity with the Group investing £37.8m (2014: £16.5m) in new businesses during the financial year, extending the Group's activities into new products and geographies in line with the Group's strategic objectives. Shortly after the year end the Group completed the acquisition of WCIS, an established supplier of sealing products and services in Australia for a maximum consideration of £9.8m. The WCIS acquisition is another example of how the Group uses acquisitions to extend and broaden its activities into new markets and geographies.

The much higher spend on acquisitions in this financial year, together with distributions of £19.7m (2014: £18.2m) to shareholders during the year, contributed to a reduction in net cash funds of £18.3m in the year to £3.0m at 30 September 2015 (2014: £21.3m).

### **Dividends**

The robust balance sheet and strong free cash flow, together with a more favourable acquisition environment, has led the Board to recommend an increase in the final dividend of 7% to 12.4p per share (2014: 11.6p). Subject to shareholder approval at the Annual General Meeting, this dividend will be paid on 27 January 2016 to shareholders on the register at 27 November 2015.

The total dividend per share for the year will be 18.2p (2014: 17.0p) which represents a 7% increase on 2014. The dividend is well covered by adjusted EPS at 2.1 times, in line with the Board's objective of targeting towards a two times level of cover.

### **Governance**

We have this year completed the process of developing and refreshing the Board started by my predecessor in 2013. In February we strengthened the Board's resources with the appointment of Andy Smith as a non-Executive Director. Andy brings excellent experience to the Company having previously held Group HR roles at Severn Trent PLC and The Boots Company PLC.

I was also pleased that Anne Thorburn accepted our invitation to join the Board in September. Anne brings to the Company many years of experience gained from Board level finance roles in listed international industrial companies. Anne will replace Marie-Louise Clayton as Chairman of the Audit Committee, when she retires from the Board this month at the end of her term of office. I wish to thank Marie-Louise for the support and guidance she has provided to the Board during the past three years.

I am pleased that with the newly refreshed Board, we have a strong and experienced team to support and guide the Group as it pursues the successful implementation of the Group's growth strategy.

### **Employees**

Since being appointed Chairman earlier this year, I have endeavoured to visit the Group's businesses and meet our employees who are so important to the success of the Group. I have been impressed by the hard work and loyalty that our employees demonstrate to each of their businesses and I wish to thank them for their efforts this year to deliver a high level of service as they strive to meet targets in the face of challenging markets.

### **Outlook**

The Group's strong and proven business model delivered robust growth this year, benefitting from a good contribution from acquisitions and despite adverse exchange rate movements. This balance is expected to continue into the coming financial year as the economic headwinds continue to constrain organic growth in the Group's principal markets in North America and Europe, but prospects for further acquisitions remain promising.

While the Board remains cautious on the current macroeconomic backdrop, we remain confident that the Group's resilient business model with a diverse geographic spread of activities and strong financial position, together with a more favourable environment for acquisitions will provide a good platform to deliver further growth in the coming year.

## CHIEF EXECUTIVE'S REVIEW

In 2015, the Group has delivered a robust performance with a good contribution from acquisitions completed during the last eighteen months. The Group's revenues increased by 9% with the acquired businesses adding 11% to revenues, but with adverse currency movements reducing revenues by 3% on translation to UK sterling. After adjusting for acquisitions and currency, underlying revenues increased by 1%. Adjusted operating margins decreased by 40bps to 18.1% of revenue, reflecting transactional currency effects in the Healthcare businesses and initial dilution from the acquired businesses. Free cash flow increased by 7% to £40.3m and return on adjusted trading capital employed ("ROATCE") remained comfortably above the 20% threshold at 23.9%.

### Business Model and Growth Strategy

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

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

Overall growth is accelerated from the underlying GDP plus levels to the corporate target of strong, double digit growth, through carefully selected, value-enhancing acquisitions which fit the business model and offer entry into new strategic markets. Acquisitions are not made just to add revenue and profit, but rather to bring into the Group successful businesses which have growth potential, capable management and a good track record of profitable growth and cash generation. As part of our **Acquire, Build, Grow** strategy, we invest in the businesses post acquisition to build a firm foundation to allow them to move to a new level of growth. These acquisitions form a critical part of our Sector growth strategies and are designed to generate a pre-tax return on investment of at least 20% and hence support our Group objective of consistently exceeding 20% return on adjusted trading capital employed ("ROATCE").

### Performance against objectives and KPIs

The Group's principal corporate objectives relate to growth in adjusted earnings per share ("EPS") and total shareholder return ("TSR"). The compound growth in adjusted EPS has been 15% p.a. over the last five years; this year the growth in adjusted EPS has been at the more modest level of 6%. Over the last five years, the compound growth in TSR has been 22% p.a.; this year, TSR has performed in line with the FTSE 250 median performance after a number of years of very strong growth.

Underpinning the principal corporate objectives are a set of further objectives, with related key performance indicators ("KPIs") which are used to measure performance at the Group level, but also to drill down through the operating businesses. The first of these next level objectives is to generate stable "GDP plus" levels of underlying *organic revenue growth* over the business cycle. This year, challenging markets within the three Sectors meant that organic growth has been hard won. In Life Sciences, underlying revenues increased by 4% despite the pressure



on budgets throughout the Healthcare system driven by the tougher economic environments in Canada and Australia. In Seals, underlying revenues increased by 4% as trading activity in North America slowed in the second half of the year, impacted indirectly by cutbacks in the Oil & Gas sector and lower demand for natural resources. Controls revenues decreased by 5% on an underlying basis, reflecting softer European industrial markets and strong prior year comparatives.

The objective for adjusted *operating margins* is to maintain stable attractive margins which reflect the focus on specialised segments, strongly differentiated products and customer focused solutions, combined with efficiently run operations. This year, adjusted operating margins were 18.1% which is at the lower end of the five year average range of 18-19%. As always there were a number of moving parts, with margins negatively impacted by the reduced gross margins in the Healthcare businesses, initial dilution from acquired businesses and one-off facility restructuring costs in the US. However, the impact on Group operating margins was limited to 40bps by sector mix and by tight control of operating costs across the businesses.

The Group continues to focus strongly on *free cash flow*, which funds the growth strategy and gives the resources to provide healthy dividends to shareholders. In 2015, free cash flow was £40.3m, compared with a five year average of £33m p.a. and was equivalent to a conversion rate of over 90% of adjusted after tax earnings.

The principal determinant of free cash flow conversion is the effective management of working capital and the KPI used to measure and monitor this performance is *working capital as a percentage of revenue*. In 2015 this KPI remained stable at 17.0% comparing well with the five year average level of 16-17% which is also the longer term target.

*ROATCE* is the final indicator of the overall performance of the Group and very importantly of its success in creating value for shareholders. *ROATCE* is measured as the pre-tax return on total Group investment excluding net cash, but including all goodwill and acquired intangible assets. *ROATCE* has comfortably exceeded the 20% target in each of the last five years and this year was 23.9%.

## **Acquisitions**

Acquisitions are an integral part of the Group's strategy, designed to accelerate growth and to facilitate entry into related strategic markets. To achieve the Group's objective of strong double digit growth, acquisition spend at the level of £25-30m p.a. is targeted. This year, the Group continued to benefit from a positive acquisition environment and invested £37.8m in acquisitions, which was well above the target annual level and was more than double the level of expenditure in the prior year.

The acquisitions which have been completed are natural extensions of the Group's existing businesses and have extended the scope of the businesses into new product and market segments and geographies. In Life Sciences, DHG acquired 80% of Technopath Distribution ("TPD"), an established supplier to the Biotechnology, Clinical Laboratory and Medical markets in Ireland and the UK. The acquisition of TPD represents an important first step in extending the scope of DHG's business into the markets of Ireland and the UK. In addition, TPD brings important new products and suppliers to the DHG group in the areas of rapid hygiene testing in Food, Dairy and Pharmaceutical industries, as well as Digestive Health.

In Seals, the Group acquired Kubo, a leading supplier of seals, 'O' rings, gaskets and moulded rubber parts serving a diverse base of industrial customers in Switzerland and Austria. In the UK, FPE Seals acquired Swan Seals, a small specialised supplier of machined seals based in Aberdeen and serving customers' operational requirements. The Group also acquired a further 10% shareholding in Kentek, taking our ownership to 90% with the balance held by the Managing Director of the business. In October 2015 shortly after the year end, the Group acquired WCIS, a supplier of gaskets, seals and associated products and services, with operations in Australia and New Caledonia.

## Management development

Iain Henderson, our Chief Operating Officer ("COO"), decided during the year that he would like to retire from the Group. Iain will stand down from the Board at the January 2016 AGM but will stay fully involved with the Group until the end of March 2016 to ensure a smooth handover of responsibilities. Iain has worked alongside me for 17 years at Diploma and he has been a key driver of the growth and development of the Group over this period. We will all miss his insightful contributions on strategy, keen business judgement and dry humour, but at the same time we will all wish him well in his future endeavours.

Over the last few years, we have strengthened the senior management team by giving increased responsibility to existing managers and through selective external recruitment. We are intending to continue this process over the coming year with the establishment of a formal Executive Management Group ("EMG") reporting in to me. We will be retiring Iain's COO shirt and his responsibilities will be reallocated across this broader leadership team.

The introduction of the EMG will ensure that we have a strong and broad based team in place to support the next stage of our growth strategy. Since the year end, we have made good progress in building bench strength in this evolving EMG, with the recruitment of two experienced senior managers to take leadership roles in North American Industrial Distribution and in our International Healthcare business.

## SECTOR DEVELOPMENTS

### LIFE SCIENCES

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

	2015	2014
Revenue	£103.1m	£91.4m
Adjusted operating profit	£21.0m	£19.7m
Adjusted operating margin	20.4%	21.6%
Free cash flow	£15.6m	£14.9m

- *Sector revenue growth of 13%; underlying growth of 4% after adjusting for currency and TPD acquisition*
- *Good revenue growth in DHG's Canadian and Australian businesses despite pressure on Healthcare budgets; stronger second half of year as delayed capital equipment orders released*
- *Significant pressure on margins from 20-25% depreciation of Canadian and Australian dollars against US dollar*
- *TPD acquisition extends DHG into Ireland and the UK; strong double digit growth in first year*
- *Environmental businesses maintained underlying revenues and finished the year with solid order book*

Reported revenues of the Life Sciences businesses increased by 13% to £103.1m (2014: £91.4m). The acquisitions of TPD in October 2014 and Chemzyme in July 2014 added £13.3m, or 15% to Sector revenues but this was partly offset by a reduction of ca. 6% in revenues from the translational currency impact from the continued weakening in the Canadian and Australian dollars and the Euro relative to UK sterling. On a constant currency basis, underlying revenues increased by 4%.

Gross margins in the Healthcare businesses continued to be impacted significantly by transactional currency effects. During the financial year, the Canadian and Australian businesses experienced further depreciation in their domestic currencies of 20% and 25% respectively relative to the US dollar, which is the principal currency in which these businesses mostly purchase their products. The TPD business in Ireland and the UK has not been impacted in the same way by transactional currency effects, but joined the Group with slightly



lower operating margins. Currency hedging contracts and supplier price concessions have provided some mitigation, but Healthcare gross margins have reduced by 370bps compared with the prior year. Environmental gross margins improved and operating costs as a percentage of revenue reduced across the Life Sciences businesses; adjusted Sector operating margins therefore reduced by only 120bps to 20.4% (2014: 21.6%). On a reported basis, adjusted operating profit increased in UK sterling terms by 7% to £21.0m (2014: £19.7m).

Capital expenditure in the Sector increased to £2.5m (2014: £1.2m), which included £1.9m invested in field equipment for placement in hospitals and clinics by the Canadian Healthcare businesses and £0.4m invested in IT infrastructure, including £0.1m in a new ERP system in Vantage which completed its installation in November 2015. Free cash flow increased to £15.6m (2014: £14.9m), reflecting a combination of the increased operating profit and reduced cash flows into working capital, offset by the increase in capital expenditure.

## **Healthcare**

Revenues from the DHG group of Healthcare businesses increased by 5% after adjusting for the acquisitions of TPD and Chemzyme and for translational currency effects.

The Canadian Healthcare businesses increased revenues by 5% in local currency, with consumable and service revenues accounting for ca. 90% of revenues. The tougher economic environment in Canada, caused largely by the falling oil prices and reduced demand for the country's natural resources, has put greater pressure on budgets throughout the Healthcare system. There have also been various initiatives to restructure functions within several Provinces and regions, which have constrained purchasing and slowed down capital purchases. In particular there has been a freeze in capital spending in Quebec, while the Province completes the centralisation of its Health regions.

Against this background, Somagen achieved good growth in sales of consumable products across its key suppliers, in particular HbA1c diabetes testing and electrophoresis, colorectal cancer screening and assisted reproductive technology (ART). Capital equipment sales in the first half of the year were slow due to the reorganisation of testing services in certain Provinces; however a number of the delayed orders were released in the second half of the year with sales of histology instrumentation finishing strongly. Investments have been made during the year in establishing new suppliers in the areas of quality control products and automation in microbiology and theranostics, which focuses on the patient's response to specific biotherapeutic drugs.

AMT's core electrosurgery business has continued to grow unit volumes with increasing smoke evacuation compliance in existing accounts and penetration into new accounts. However, tender and evaluation processes introduced by the Provincial SSOs (shared services organisations) and the GPOs (general purchasing organisations) have put pressure on unit prices and constrained revenue growth. AMT has responded by introducing lower cost product options alongside premium products to ensure competitive pricing in major tenders. AMT has continued to make progress in its supply of specialised surgical instruments and devices used in laparoscopic and other MI (minimally invasive) Surgery procedures.

Vantage posted a very strong second half to the year and delivered double digit growth in revenues for the full year. In the first half of the year, the main consumable product lines performed to expectation with modest growth in revenues from argon plasma probes, endoscope reprocessor chemicals and other accessories including specialist retrieval devices. Capital equipment revenues however were underperforming due to delayed budget approvals. In the second half, consumable and service revenues continued to grow steadily and results were boosted by strong capital equipment sales as the delayed orders were released and by new CPP (cost per procedure) placements. By the end of the year, Vantage was able to deliver double digit growth across all of its principal capital product lines including endoscopes, reprocessors and argon plasma units.

In Australia and New Zealand, the economies have faced similar challenges to those experienced in Canada and Healthcare budgets have come under the same pressures. Against this background, revenues from DSL and BGS increased by a creditable 11% in local currency terms (7% growth after adjusting for the acquisition of Chemzyme). BGS continued to grow revenues strongly, with smoke evacuation programmes in existing and new accounts providing the main driver for growth and with steady growth in sales of electrosurgical grounding pads and laparoscopic electrodes. DSL consumable and service revenues trended in line with expectations and delivered modest growth, but capital equipment sales were slower due to budget pressures and delayed projects. DSL and BGS operate as distinct sales and marketing businesses, benefiting from a single leadership group and shared operations and back office systems in Melbourne, giving the efficiencies and critical mass of a shared services group. The Chemzyme business, acquired in July 2014, was fully integrated into DHG's Melbourne operations during the year.

In early October 2014, DHG acquired 80% of TPD, an established supplier to the Biotechnology, Clinical Laboratory and Medical markets in Ireland and the UK. The acquisition of TPD represents an important first step in extending the scope of the Group's Healthcare businesses into these new markets in Europe. In addition, TPD brings important new products and suppliers to the DHG group in the areas of rapid hygiene testing in Food, Dairy and Pharmaceutical industries as well as Digestive Health. TPD has performed very well since acquisition, delivering strong double digit revenue growth on a like-for-like basis.

### **Environmental**

Revenues from the Environmental businesses in Europe increased by 1% in constant currency terms. The a1-envirosciences business based in Germany increased revenues by 6% in Euro terms and ended the year with an encouraging book-to bill ratio. There was strong demand for high-end elemental analysers supplied to Petrochemical industry customers and Environmental laboratories. There was also considerable customer interest in the range of recently introduced mercury analysers for fuel analysis.

The a1-CBISS business based in the UK saw revenues reduce by 4% against a very strong prior year comparative. Reduced revenues from CEMS (continuous emissions monitoring systems) were against very strong comparatives (20% growth in 2014) and the sector remains buoyant with new Biomass and Energy from Waste plants forming an important part of the UK's energy portfolio with the reduction in coal fired power stations. A solid order book is carried into the new fiscal year including the completion of a large order from Drax related to the conversion of its plant to biofuels. The gas detection sector had a strong first half but was then impacted by the slowdown in sales to Oil & Gas customers. 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 Sector businesses supply a range of seals, gaskets, filters, cylinders, components and kits used in heavy mobile machinery and specialised industrial equipment.***

	2015	2014
Revenue	<b>£139.6m</b>	£119.8m
Adjusted operating profit	<b>£24.8m</b>	£21.7m
Adjusted operating margin	<b>17.8%</b>	18.1%
Free cash flow	<b>£17.8m</b>	£16.4m

- *Sector revenue growth of 17%; underlying growth of 4% after adjusting for currency and acquisitions*
- *In North America, slower trading activity in second half, impacted indirectly by cutbacks in Oil & Gas and Mining industries*
- *Continued investment in e-commerce and seal machining centres; Bulldog operations relocated to Tampa; new branch operation in Houston*
- *In Europe, strong underlying growth despite challenging economic background; new purpose built FPE Seals facility established as core Aftermarket hub in Europe*
- *EMEA Seals now 34% of Sector revenues following acquisitions of Kentek, Kubo and Swan Seals*
- *Acquisition of WCIS after year end broadens product range and extends Seals activities into Australasia*

Reported revenues of the Seals businesses increased by 17% to £139.6m (2014: £119.8m). These revenues included contributions from Kubo (acquired in March 2015), Kentek (acquired in January 2014) and four smaller bolt-on acquisitions in the UK completed during the last 18 months. After adjusting for these acquisitions and for currency translation, underlying revenues increased by 4%.

Good progress has been made during the year in establishing a more substantial presence outside North America through a combination of organic growth and acquisition. The businesses based in the EMEA region contributed £47.3m to Seals revenues in the year (2014: £29.9m) and now account for 34% of Sector revenues. In October 2015, shortly after the year end, the acquisition was completed of WCIS, a supplier of gaskets, seals and associated products and services with operations in Australia and New Caledonia.

Across the Seals businesses, gross margins continued to be resilient, underpinned by the business model of superior product availability and added value technical services. Adjusted operating margins reduced by 30bps to 17.8% (2014: 18.1%) as Kubo joined the Group with lower initial operating margins and there were several one-off costs in the reorganisation of facilities in the US, including the relocation of the Bulldog facility, which added incremental costs of ca. £0.8m. Adjusted operating profits increased by 14% to £24.8m (2014: £21.7m).

Free cash flow increased by £1.4m to £17.8m (2014: £16.4m), benefiting from the increase in operating profit and tight control of working capital. Capital expenditure increased to £1.5m (2014: £0.5m), which included £0.4m expenditure on leasehold improvements for the new Bulldog facility and further investment of £0.6m in seal manufacturing equipment and new vertical storage carousels. In Europe, Kubo invested £0.2m in additional gasket cutting equipment in Switzerland and Austria. FPE Seals also completed the move to a new leasehold facility, which was constructed to our specifications and then sold and leased back shortly before the year end.

## Aftermarket

The Aftermarket businesses, which account for ca. 55% of Sector revenues, reported a 4% increase in overall revenues. After adjusting for currency translation and the acquisitions of Kentek, AB Seals and Swan Seals, underlying revenues increased by 2%.

In the US, Hercules Bulldog grew domestic sales by 1% on a like-for-like basis, as a generally solid performance in most territories was offset by substantial declines in the resource-dependent States including Texas, Oklahoma, Pennsylvania, Colorado and Montana. Further progress was made in electronic trading and the number of sales orders processed online now accounts for 21% of Hercules Bulldog orders in the US. The seal machining centres also continued to deliver good growth, with a fourth machine added during the year. Revenues from exports outside the US, which account for 15% of Hercules Bulldog sales, increased by 2% with good growth rates in Mexico and Central America more than offsetting reductions in other South American markets. In September 2015, the Bulldog gasket manufacturing and kit assembly operations in Reno were relocated to a new facility in Tampa, close to the core Hercules Clearwater site. The new facility has improved international port and air carrier links and is expected to deliver ca. £0.2m p.a. in annual cost savings.

Hercules Canada increased revenues by 10% in local currency terms, with solid sales to the traditional mobile equipment repair sector boosted by the installation of an additional seal making machine. There were also increased sales to Canadian cylinder manufacturers, serving US equipment OEM customers and benefiting from the weak Canadian dollar. Hercules Canada has its principal distribution centres in Ontario and Quebec and has limited direct exposure to the depressed Oil & Gas sector in Western Canada.

HKX's revenues decreased by ca. 20% from its record performance in 2014, when there was strong demand from rental fleets for new excavators and OEM engineering resources were focused on the transition to new Tier 4 Final emissions regulations. In 2015, the higher pricing of the new Tier 4 Final machines has dampened demand for new excavators and excavator OEMs have been supplying a higher proportion with factory-fitted attachment kits. HKX has also been negatively impacted by the downturn in the Oil & Gas and Mining industries in Western Canada. HKX has responded by targeting sales of attachment kits for used machines and introducing lower cost, entry level kits which are upgradeable as required to provide a fuller range of capabilities. HKX has trimmed its operating costs to match the reduced revenues and still maintains a healthy operating profit margin.

In Europe, FPE Seals increased reported revenues by ca. 50% with solid underlying growth boosted by the transfer from Hercules Bulldog to FPE Seals of responsibility for the sale of Bulldog products in the wider EMEA region. FPE Seals also benefited from two small acquisitions which provide it with excellent geographical coverage of the UK. AB Seals in Kent was acquired in February 2014 and Swan Seals, a small specialised supplier of machined seals based in Aberdeen, was acquired in July 2015. During the year, FPE Seals relocated its principal operations in the UK to a new, purpose-built 34,000 square foot building in Darlington, which consolidates smaller less efficient facilities and will be the core Seals Aftermarket hub for further expansion into the EMEA region.

Kentek has faced significant economic and political challenges since its acquisition in January 2014, with the Russian economy (and those of Finland and the Baltic States) significantly impacted by lower Oil & Gas prices, the downturn in Mining industries and the sanctions imposed following the conflicts in Ukraine and the Crimea. Kentek has responded well to these challenges and delivered a strong increase in underlying revenues in 2015. Diploma acquired a further 10% shareholding in Kentek, taking our ownership to 90% and with the continuing 10% minority shareholder now appointed as Managing Director. In Russia, the Saint Petersburg operation now acts as the sole Russian corporate entity and the sales team has been reorganised to focus on specific geographical territories and market sectors.

## **Industrial OEM**

The Industrial OEM businesses, which account for ca. 45% of Sector revenues, reported a 35% increase in revenues. After adjusting for currency translation and the acquisitions of Kubo, Ramsay Services and Maxwell Seals, underlying revenue growth was 6%.

In North America, the Industrial OEM businesses delivered underlying revenue growth of 6% in an economy that showed signs of flattening off in the second half of the year. RT Dygert delivered another year of solid growth in its core industrial customer base as it continued to benefit from its development of regulatory-compliant elastomer compounds for the Pharmaceutical and Water industries and for fuel dispensing applications. During the year, RT Dygert also successfully launched a new online Webstore which acts as a B2B portal for existing distribution customers. In July 2014, RT Dygert acquired the outstanding 49% shareholding in the HPS business in Seattle. The HPS back office and logistics processes have been successfully integrated into RT Dygert and the business delivered another record sales year.

All Seals delivered more modest growth in 2015, as demand flattened out in the Water, Military Aerospace and Industrial sectors. All Seals opened a small branch operation in Houston in November 2014 and while sales to the Oil & Gas sector increased, further gains were held back by the downturn in this sector. J Royal delivered another year of excellent growth in 2015 with strong demand from its water meter and gas boiler customers more than offsetting lower sales to manufacturers of swimming pool equipment. J Royal continued to strengthen its operations by closing its Rhode Island facility and relocating key development resources to its main facility in North Carolina.

In Europe, the expanded M Seals group reported increased revenues of 4%, with solid underlying growth boosted by the bolt-on acquisition in the UK of Ramsay Services in December 2013. There was solid organic growth in Denmark with steady demand from the traditional pump and valve manufacturers and from wind turbine customers and the Swedish operation delivered another year of strong double digit growth. The Chinese operation also saw a rebound in revenues after a softer prior year, as confidence returned to the Wind Power sector in China. In the UK, M Seals delivered a solid performance despite the slowdown in the Oil & Gas sector in which the acquired companies had traditionally specialised.

In March 2015, the Group completed the acquisition of Kubo, a leading supplier of seals, O-rings, gaskets and moulded rubber parts to a diverse base of industrial customers in Switzerland and Austria. The Swiss franc strengthened during the year following its decoupling from the Euro and this has made it more difficult for Swiss OEMs to export their products. However, most of Kubo's purchases are from outside Switzerland allowing price reductions to customers without impacting margins. The trading environment for Kubo in Switzerland is now stabilising although growth has been constrained. The Austrian operation was not impacted by the currency issue and performed well during the year. In August 2015, the previous owner of Kubo stepped down as planned and a new Managing Director with significant industrial experience has been appointed.

## CONTROLS

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

	2015	2014
Revenue	£91.1m	£94.6m
Adjusted operating profit	£14.5m	£15.3m
Adjusted operating margin	15.9%	16.2%
Free cash flow	£11.4m	£11.4m

- *Sector revenue reduced by 4%; underlying reduction of 5% after adjusting for currency and acquisitions*
- *Interconnect businesses faced challenging industrial markets in the UK and Continental Europe and strong comparatives in Civil Aerospace and Motorsport*
- *Continued growth in specialised segments in Germany, including the Energy and Space satellite sectors*
- *In Specialty Fasteners, lineside supply projects for aircraft seat manufacturer constrained business this year but will deliver longer term revenue growth; excellent performance from SFC in first full year*
- *Fluid Controls businesses repositioned towards growing segments of the Food & Beverage market in the UK, with smaller more energy efficient products*

Reported revenues of the Controls businesses decreased by 4% to £91.1m (2014: £94.6m), after including a full year contribution from SFC, acquired in July 2014. After adjusting for this acquisition and for currency translation, underlying revenues decreased by 5%.

Overall gross margins remained resilient in the Controls businesses due to their focus on specialised markets and added value services. However, operating costs as a percentage of revenue increased due to reverse operating leverage and adjusted operating margins reduced by 30bps to 15.9% (2014: 16.2%). Adjusted operating profits decreased by 5% to £14.5m (2014: £15.3m).

Free cash flow remained unchanged at £11.4m, with reduced cash flows into working capital and lower capital expenditure offsetting the impact of lower operating profit. Capital expenditure reduced to £0.3m (2014: £0.5m) with the largest expenditure during the year being ca. £0.1m on customised bins for the Specialty Fasteners business to support production in a major customer facility.

### Interconnect

The Interconnect businesses, which account for ca. 75% of Sector revenues, reported a revenue decrease of 3% in UK sterling terms; after adjusting for the acquisition of SFC and for currency effects, underlying revenues decreased by 5%. The revenue reduction reflects a combination of weak overall activity levels in UK and European industrial markets and strong comparatives for the Specialty Fasteners business in the Motorsport and Civil Aerospace sectors.

In the IS-Group businesses in the UK, revenues decreased by 9%, with challenging industrial markets in the UK and also in the Eurozone countries which the IS-Group serves as a Master Distributor for certain key suppliers. Sales direct to industrial end-users in the UK were generally muted, but the most significant reductions were in sales to other distributors in the UK and Continental Europe. Management remains confident that these revenues were not lost to competitors since the IS-Group companies are often the single source for several key products. The lower demand from both broad range catalogue distributors and the smaller, more specialised distributors suggests that both smaller and larger OEMs have been impacted by slower order books and some de-stocking.

In Defence & Aerospace, revenues reduced as several major projects had been completed in 2014, including the build phase of the Astute class submarines and there were no major



projects to replace this demand. The IS-Group, because of its experience and buying power, is also a key supplier to other sub-distributors in Europe that support military programmes. However, the demand from these sub-distributors also fell sharply as programmes in other territories were completed or delayed. Beyond the large equipment programmes, there are still many successful UK manufacturers continuing to build highly specialised control and monitoring sub-systems for defence use. While major programme expenditure may be lower, the number of more focused projects and operators combine to produce a sustainable customer base for the IS-Group in the UK.

In Motorsport, there was reduced demand from Formula 1 ("F1"), where two teams exited the competition and there were fewer technological changes than last year, when the new V6 turbo engine was introduced, along with upgraded energy recovery systems. However, the growth of supercars for road use, the Formula E series and the resurgence of high performance motorbikes in Japan have all provided new growth opportunities. Less conventionally, the growing sophistication of sensor control systems on racing yachts has provided the opportunity to supply components to the Americas Cup teams.

In the Energy industry in the UK, IS-Group serves an attractive but narrow customer base comprising sub-sea cable manufacturers for the Oil & Gas industry, specialised manufacturers of portable generators and manufacturers of batteries for use in UPS (Uninterrupted Power Supplies) applications. The demand from these customers has always been somewhat cyclical and in 2015 each segment was down.

In Germany, IS-Sommer and Filcon reported flat revenues in Euro terms (9% reduction in UK sterling terms) with a significant reduction in revenues from general Industrial customers offset by growth in more specialised sectors. In the Industrial sector, revenues reduced as industrial output in Germany remained volatile from one month to the next and exports suffered in the wake of the Russian sanctions and the slowing Chinese manufacturing sector. During the year, revenues were also impacted by certain IS-Sommer customers relocating all or part of their manufacturing to lower cost regions outside of Germany. In the final quarter, the industrial economy stabilised somewhat and IS-Sommer also found new business in the Construction industry to partly offset the downturn in its more traditional industrial customer base.

In Defence & Aerospace, revenues were broadly flat, although activity on Military Aerospace projects has picked up pace following several years of cautious production levels and with the growing pressure on Germany to upgrade its military capabilities. Uncertainty over various tank programmes to be built for the US Army dampened demand from the specialist engine manufacturers, but the decision to upgrade the electronics on the German Leopard II tank and to develop the next generation Leopard III tank has now been confirmed. Filcon also had success in the developing space satellite niche where it has built a focused portfolio of the specialised connectors that have been qualified for use on satellites.

In the Energy sector, IS-Sommer delivered a strong increase in revenues from products used in the repair and maintenance of the medium-voltage infrastructure of the Electricity distribution network. IS-Sommer has been appointed a Master Distributor for these specialised products by its principal supplier and has steadily built its reputation with the public authorities and utilities that are responsible for the local distribution networks. In the Medical sector, IS-Sommer primarily serves German and Swiss medical equipment manufacturers and delivered revenues comparable to the prior year.

The Specialty Fasteners business (Clarendon and SFC) increased revenues by 16% over the prior year; after adjusting for the acquisition of SFC, underlying revenues decreased by 7%. Although overall revenues in Aerospace reduced, this was against a very strong comparative with record prior year sales in the aircraft seating segment. This year, customer changes to aircraft seat designs and delays to build schedules impacted demand. In addition, Clarendon's deliveries to its largest customer were reduced during the implementation of a large new lineside supply project. This project involves the installation of an innovative VMI (vendor managed inventory) solution that utilises bespoke dispensing racks that are located within the

customer's production cells and equipped with RFID (radio frequency identification) technology. In the UK, the company also consolidated its position with the same customer by extending its supply contract to an additional manufacturing site. The requirement for aircraft seating remains exceptionally high with demand continuing to outstrip short term capacity and Clarendon broadened its business with new customers across the EMEA region.

In Motorsport, a combination of reduced engine development budgets, some changes in purchasing practices and a reduction in the number of F1 teams, all contributed to reduced revenues against a strong prior year comparative. However, SFC's portfolio of own-brand fastener products for the wider racing fraternity in the UK and the US brought increased penetration of several lower-tier racing series. The lead product is the proprietary "Aerocatch" bonnet fastener used to secure bodywork panels on high performance race cars. More broadly, SFC delivered an excellent performance in the supply of standard and own-brand fastening solutions to a wide range of smaller, niche UK manufacturers.

### **Fluid Controls**

The Hawco group of Fluid Controls businesses, which account for ca. 25% of Sector revenues, reported a 6% reduction in revenues. The greater part of the shortfall was attributable to just two customers that had been heavily involved in new build programmes for major food retailers in the prior year. As has been widely reported, the traditional UK food retailers have reduced substantially their fit-outs of new stores. In response to this, Hawco's immediate customers, the commercial refrigeration manufacturers, have now begun to win new business from the discount retailers that had previously sourced their refrigeration needs in Continental Europe. Hawco also continues to leverage its expertise and access to smaller, more efficient compressors and ancillary components to penetrate the wider Brewing and Catering sectors. As pubs continue to expand their food offerings and a greater variety of convenience foods are served by retailers, there are challenges to keep drinks and food cool in more confined spaces. Hawco is well positioned to support these retailers with greenhouse gas compliant, low energy solutions.

Abbeychart began a measured realignment of its business to match the significant changes taking place in the UK hot drinks dispensing market. Key players are repositioning their businesses from "vending companies" to "coffee specialists", with a broad range of espresso-type machines being installed in an increasing number of outlets from garages to top class restaurants. Abbeychart recently completed an exercise to map the components used in the broad range of espresso machines to build a portfolio of essential parts. The change in customer focus from traditional bulk coffee brewers to users of the newer equipment led to a decline in revenues during the first half of the year, but sales volumes in recent months have recovered. There was a further reduction in the demand for components used in the installation of plumbed water dispensers in offices which are now favouring individual bottled water. This was mostly offset by increased revenues from the repair and rebuilding of bar guns for soft drinks and funnel units used to dispense more solid slush-type drinks.

## **FINANCE REVIEW**

### **Results in 2015**

Diploma achieved a creditable performance this year with revenues increasing by 9% to £333.8m and adjusted operating profit increasing by 6% to £60.3m, bolstered by good contributions from acquisitions completed both this year and last year. Weaker industrial markets, particularly in the second half of the financial year, led to underlying revenues and adjusted operating profits increasing by only 1% this year. However free cash flow was again very strong at £40.3m and helped to finance £37.8m of acquisition investment which should provide a good base for earnings growth in future years.

Underlying revenues and adjusted operating profits are after adjusting for the contribution from businesses acquired during the year and for the impact on the translation of the results of the overseas businesses from the significant strengthening of UK sterling, against most of the

currencies in which the Group operates. With ca. 75% of the Group's businesses based overseas, the impact on headline results from currency translation has led to a reduction in revenues and adjusted operating profits of £8.1m and £1.6m respectively, when compared with last year's exchange rates. The contributions from acquisitions completed in the year were £24.2m to revenue and £3.4m to adjusted operating profit, before £0.3m of internal management charges.

Gross margins in the Healthcare businesses, which represent ca. 25% of Group revenues, continued to be impacted on a transactional basis by the continuing depreciation of the Canadian and Australian dollars. These two currencies have now depreciated in excess of 30% over the past two years against the currencies in which they purchase their products, predominantly the US dollar. Currency hedging contracts and supplier price concessions have provided some mitigation, but transactional currency effects reduced Healthcare gross margins by 280bps in 2015. With further depreciation of these two currencies continuing through 2015, the forward currency hedge contracts are being replaced at more unfavourable exchange rates which will maintain pressure on Healthcare gross margins well into 2016. Transactional currency exposures in the rest of the Group's businesses were not significant.

The weaker gross margins in the Healthcare businesses were largely mitigated by a combination of stronger margin mix of revenues across the Group's businesses and by operational leverage from continuing tight control over operating costs. However, with the businesses acquired during the past two years joining the Group with initial operating margins which are lower than the Group's average and with £0.8m being incurred on one-off facility restructuring costs in the US Seals businesses, operating margins declined by 40bps to 18.1% this year, compared with 18.5% for the full year in 2014.

#### **Adjusted profit before tax, earnings per share and dividends**

Adjusted profit before tax increased by 6% to £59.6m (2014: £56.2m). There was a finance expense this year of £0.7m (2014: net £0.5m) which included £0.3m of interest costs on borrowings drawn down during the year to help finance acquisitions (2014: £Nil). The notional interest expense on the Group's defined pension liabilities remained unchanged at £0.2m and £0.2m (2014: £0.4m) was paid on bank facility and commitment fees. Statutory profit before tax was £51.8m (2014: £49.8m), after acquisition related charges of £7.4m (2014: £6.4m) and fair value remeasurements of £0.4m (2014: £Nil) in respect of the put options held over minority interests.

The Group's adjusted effective accounting tax charge in 2015 remained unchanged from the previous year at 26.3% of adjusted profit before tax. The charge this year benefited from the further reduction in UK corporation tax rates to 20.5% (2014: 22.0%) and from lower tax rates applied to some of the businesses acquired during the past two years; however the effective tax rate in the US increased slightly this year to 36% (2014: 35%) after the catch up in prior year manufacturing tax relief claims received last year. Adjusted earnings per share increased by 6% to 38.2p, compared with 36.1p last year and statutory basic earnings per share increased to 32.5p (2014: 31.4p).

The Board's policy is to increase dividends to shareholders each year, while targeting towards two times dividend cover (defined as the ratio of adjusted EPS to total dividends paid and proposed for the year). A combination of a robust Group balance sheet and continuing strong free cash flow provides the Directors with confidence to recommend an increase in the final dividend of 7% to 12.4p per share (2014: 11.6p). This gives a total dividend per share for the year of 18.2p per share which represents a 7% increase on the prior year dividend of 17.0p. The dividend remains 2.1 times covered by adjusted EPS as reported last year.

## Free cash flow

The Group generated strong free cash flow in 2015 of £40.3m (2014: £37.8m), helped by a good contribution from the acquired businesses and tight control of working capital. Free cash flow represents cash available to invest in acquisitions or return to shareholders and represented a cash conversion of adjusted earnings of 93% (2014: 93%).

The Group's businesses worked hard in the second half of the year to reduce working capital and the cash outflow into working capital was reduced from £6.8m at 31 March 2015 to £1.9m at 30 September 2015; this compared with £4.6m in the last financial year. The efforts to reduce working capital were generally focused on inventory levels which resulted in no cash outflow.

During the year, the Healthcare group of businesses represented by DHG reclassified £1.2m of inventory as plant and equipment within fixed tangible assets. These assets comprise instruments used for demonstration and for lending to hospitals while the existing instruments are being serviced at DHG service centres. The combination of this adjustment and reduced cash outflow in working capital has led to the Group's KPI metric of working capital as a proportion of revenue reducing to 17.0% at 30 September 2015 from 17.2% reported last year (16.8% when calculated on a comparable basis).

Group tax payments increased by £2.4m to £15.4m (2014: £13.0m) and included £0.7m of pre-acquisition tax liabilities from Kubo and TPD and £0.4m of payments relating to prior year liabilities. On an underlying basis and before the currency effects of translation, cash tax payments increased by £1.3m and represented ca. 24% of adjusted profit before tax compared with an underlying rate of ca. 23% last year.

Capital expenditure increased by £2.1m to £4.3m compared with £2.2m last year. The increase in capital expenditure was shared equally between the Life Sciences and Seals businesses. In Life Sciences, Vantage increased its funding of equipment contracts on a cost per procedure ("CPP") basis to £1.0m (2014: £0.4m) following the successful release of a new version of endoscopes. A further £0.9m (2014: £0.2m) of field equipment was also acquired in support of customer contracts with hospitals.

In Seals, £0.4m was spent on new seal and gasket cutting machinery in the HFPG and Kubo businesses and a further £0.5m was invested in completing new vertical carousels in the Hercules Bulldog facility in Clearwater and in adding new tooling across the Seals businesses. The relocation of the Bulldog business from Reno to a new large leasehold facility in Tampa was completed in September and £0.4m was invested in refurbishing and fitting out this facility. Capital expenditure in the Controls businesses was a modest £0.3m and related to tooling and on line-side equipment to support a supply project in the Specialty Fasteners business. The balance of capital expenditure in the year of £0.8m was largely invested in supporting the IT infrastructure across the Group.

In addition to the capital expenditure described above, the Group also financed the construction of a new purpose built facility for FPE Seals in Darlington, UK. The construction of the facility was completed in September 2015 and cost £2.9m, including fitting-out and professional costs. At completion, the facility was sold to an investment company and leased back on a 15 year full repairing lease. After providing for the potential costs of disposing of the previous long leasehold facility, no gain or loss was made on the disposal.

The Company paid the PAYE income tax liability of £1.0m (2014: £1.8m) arising on the exercise of LTIP share awards, in exchange for reduced share awards to participants; the Employee Benefit Trust also purchased a further 100,000 shares in the Company during the year at a cost of £0.7m in order to have sufficient shares to meet future LTIP awards.

The Group spent £37.8m of the free cash flow on acquisitions, as described below, and £19.9m (2014: £18.4m) on paying dividends to both Company and minority shareholders.

### **Acquisitions completed during the year**

The Group invested a record £37.8m in acquired businesses this year (2014: £16.5m), including £0.6m on acquiring outstanding minority interests and £0.6m of deferred consideration.

The largest investment was £22.9m paid in March 2015 to acquire Kubo, a leading supplier of seals and related products, largely based in Switzerland, but with a small business operating in Austria. A further £11.2m was invested in October 2014 to acquire 80% of Technopath Distribution ("TPD"), an established supplier of products to the Life Sciences market and based in Ireland. In July 2015, the Group also acquired Swan Seals for £2.5m, a small Seals Aftermarket business based in Aberdeen to be managed by FPE Seals in the UK.

These acquisitions added £19.8m to the Group's acquired intangible assets, comprising a valuation of customer and supplier relationships which will be amortised over periods ranging from 5-10 years. At 30 September 2015, intangible assets were £40.2m. Goodwill increased by £13.7m to £89.3m at 30 September 2015, after making 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 has been no impairment in the value of goodwill at the year end.

Shortly after the year end, the Group completed the acquisition of WCIS an established supplier of sealing products and services for maximum consideration of £9.8m.

### **Liabilities to minority shareholders**

The Group's liability to purchase outstanding minority shareholdings at 30 September 2015 increased to £5.7m (2014: £3.5m), following the purchase of 80% of TPD in October 2014. This acquisition included put/call options over the outstanding 20% of share capital which were valued at £3.2m. During the year, a further 10% shareholding in Kentek was acquired from the previous vendor for consideration of £1.4m, of which £0.6m was paid during the year, leaving £0.8m to be paid in December 2015. The remaining 10% minority shareholding in Kentek is held by the Managing Director of this business.

At 30 September 2015, the put options over the outstanding minority interests held in M Seals, Kentek and TPD were valued at £5.7m, based on the Directors' latest estimate of the Earnings before Interest and Tax ("EBIT") of these businesses when these options crystallise.

In addition to the liability to minority shareholders, the Group also has a liability at 30 September 2015 for deferred consideration of up to £0.9m (2014: £0.5m) which includes £0.8m owing to the former minority shareholder in Kentek.

### **Return on adjusted trading capital employed and capital management**

A key metric that the Group uses to provide an indication of the overall profitability of the Group and its success in creating value for shareholders is the Return on Adjusted Trading Capital Employed ("ROATCE"). At a Group level, this is a pre-tax measure which is applied against the fixed and working capital of the Group, together with all gross intangible assets and goodwill. At 30 September 2015, the Group ROATCE had reduced to 23.9% (2014: 25.8%) which in part reflected the impact of acquiring a freehold property valued at £7.2m, as part of the acquisition of Kubo. Adjusted trading capital employed is defined in note 3 to the consolidated financial statements.



The Group continues to maintain a strong balance sheet with net cash funds of £3.0m (2014: £21.3m) at 30 September 2015, comprising bank borrowings of £20.0m offset by cash funds of £23.0m. These cash funds were largely utilised shortly after the year end in completing the purchase of WCIS and in repaying some of the bank borrowings. Surplus cash funds are generally repatriated to the UK, unless they are required locally to meet certain commitments, including acquisitions.

On 11 March 2015, the Group exercised part of the accordion option within its existing revolving multi-currency credit facility and increased its committed bank facilities to £40m; there remains a further £10m in the accordion option for the Group to extend this facility to £50m, subject to market pricing. These additional funds were provided at a cost of 50bps and were used to assist in financing the acquisition of Kubo. These bank facilities are committed until June 2017 and will continue to be utilised 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 2015 of £2.1m (2014: £1.7m).

The Group also maintains a small closed defined benefit pension scheme in the UK which at 30 September 2013 had a funding deficit of £2.7m. The next funding actuarial valuation will be carried out as at 30 September 2016. The Group continues to make regular cash contributions to the scheme at an annual rate of £0.3m, as agreed with the actuary, with the objective of eliminating the funding deficit over seven years.

Following the acquisition of Kubo in March 2015, the Group has also been required to account for Kubo's pension scheme in accordance with IAS19 (Revised). In accordance with Swiss law, Kubo is required to provide a contribution based pension for all employees. The pension liability for these employees is funded by employer and employee contributions which are managed by a large multi-employer fund manager, with the underfunding risk insured with a major global insurance company. Although this scheme is a contribution based scheme, certain technical factors relating to the funding of the scheme determines that it must be accounted for as a defined benefit pension scheme under IAS19 (Revised).

The addition of the Kubo pension scheme this year has led to the aggregate pension deficit held in the Group's balance sheet at 30 September 2015 increasing to £9.8m from £4.3m last year. The actuarial pension deficit under IAS19 (Revised) in the Kubo scheme is £3.7m and the pension deficit in the UK scheme increased by £1.8m to £6.1m. The increase in the UK pension deficit arose because of a further reduction of 30bps in bond yields to 3.8% since last year, together with weaker equity returns during the year. The gross aggregate pension liability in respect of these two schemes at 30 September 2015 is now £44.5m which is funded by £34.7m of assets.

## **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 and one new risk added relating to supplier strategy change.

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



Strategic risk	Relative movement within Group principal risks
<b>1. Downturn in major markets</b>	<b>Increased</b>

#### Risk description & assessment

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

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

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

#### Mitigation

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

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

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

Strategic risk	Relative movement within Group principal risks
<b>2. Loss of key suppliers</b>	<b>Unchanged</b>

#### 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.

In times of rapid economic expansion in activity, such as after a global recession, there is also a risk that the lead times to supply key products can become very long. Currently no single supplier represents more than 10% of Group revenue and only seven single suppliers represent more than 2% each of Group revenue.

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

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

#### Mitigation

- 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.

Strategic risk	Relative movement within Group principal risks
<b>3. Loss of key customer(s)</b>	<b>Unchanged</b>

#### 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 customers and no single customer represents more than 5% of Sector revenue or more than 2% of Group revenue.

#### Mitigation

Specific large customers are important to individual operating businesses and a high level of effort invested in ensuring that these customers are retained and encouraged not to switch to another supplier. However, although important to individual operating businesses, loss of any single customer does not present a material risk to the Group.

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

Strategic risk	Relative movement within Group principal risks
<b>4. Supplier strategy change</b>	<b>New</b>

#### Risk description & assessment

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

Each of the Group's businesses supply established and leading products and related services to customers operating in specialised markets.

#### Mitigation

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.

Operational risk	Relative movement within Group principal risks
<b>5. Product liability</b>	<b>Unchanged</b>

#### 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.

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

#### Mitigation

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

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

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

Operational risk	Relative movement within Group principal risks
<b>6. Loss of key personnel</b>	<b>Unchanged</b>

#### 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 a significant impact on performance, for a limited time period.

The average length of service for all personnel in the Group is consistently over six 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.

Financial and accounting risk	Relative movement within Group principal risks
<b>7. Foreign currency risk – Translational exposure</b>	<b>Increased</b>

#### Risk description & assessment

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

During the year ended 30 September 2015, ca. 75% of the Group's revenue and adjusted operating profits were earned in currencies other than UK sterling. In comparison to the prior year, the net effect of currency translation was to decrease revenue by £8.1m and decrease adjusted operating profit by £1.6m. It is estimated that a further strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce adjusted operating profit before tax by approximately £4.6m (8%), due to currency translation.

Currency exposures also arise from the net assets of the Group's foreign operations. At 30 September 2015, the Group's non-UK sterling trading capital employed in overseas businesses was £171.4m (2014: £137.9m), which represented 80% of the Group's trading capital employed. It is estimated that a further strengthening of UK sterling of 10% against all the non-UK sterling capital employed would reduce shareholders' funds by £15.6m.

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 attached consolidated financial statements.

#### Mitigation

The Group operates across a number of diverse geographies, but does not hedge translational exposure.

Financial and accounting risk	Relative movement within Group principal risks
<b>8. Foreign currency – Transactional exposure</b>	<b>Increased</b>

#### Risk description & assessment

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

#### Mitigation

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

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

The Group classifies its forward foreign exchange contracts, which hedge forecast transactions, as cash flow hedges and state them at fair value at each reporting period.

Financial and accounting risk	Relative movement within Group principal risks
<b>9. Inventory obsolescence</b>	<b>Unchanged</b>

#### 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 £1.5m 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 2015**

The responsibility statement below has been prepared in connection with the Group's full Annual Report & Accounts for the year ended 30 September 2015. 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 2014. Andy Smith and Anne Thorburn were appointed non-Executive Directors on 9 February and 7 September 2015, respectively. John Rennocks retired as Chairman and non-Executive Director of the Company on 21 January 2015.

This responsibility statement was approved by the Board of Directors on 16 November 2015 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 2015**

	Note	2015 £m	2014 £m
<b>REVENUE</b>	3,4	<b>333.8</b>	305.8
Cost of sales		<b>(212.8)</b>	(194.2)
<b>Gross profit</b>		<b>121.0</b>	111.6
Distribution costs		<b>(6.8)</b>	(6.4)
Administration costs		<b>(61.3)</b>	(54.9)
<b>OPERATING PROFIT</b>	3	<b>52.9</b>	50.3
Financial expense, net	5	<b>(1.1)</b>	(0.5)
<b>PROFIT BEFORE TAX</b>		<b>51.8</b>	49.8
Tax expense	6	<b>(14.4)</b>	(13.7)
<b>PROFIT FOR THE YEAR</b>		<b>37.4</b>	36.1
Attributable to:			
Shareholders of the Company		<b>36.7</b>	35.5
Minority interests		<b>0.7</b>	0.6
		<b>37.4</b>	36.1
<b>EARNINGS PER SHARE</b>			
Basic and diluted earnings	7	<b>32.5p</b>	31.4p

<b>ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)</b>			
	Note	2015 £m	2014 £m
Operating profit		<b>52.9</b>	50.3
Add: Acquisition related charges	3	<b>7.4</b>	6.4
<b>ADJUSTED OPERATING PROFIT</b>	3,4	<b>60.3</b>	56.7
Deduct: Net interest expense	5	<b>(0.7)</b>	(0.5)
<b>ADJUSTED PROFIT BEFORE TAX</b>		<b>59.6</b>	56.2
<b>ADJUSTED EARNINGS PER SHARE</b>	7	<b>38.2p</b>	36.1p



**CONSOLIDATED STATEMENT OF  
INCOME AND OTHER COMPREHENSIVE INCOME  
For the year ended 30 September 2015**

	2015 £m	2014 £m
<b>Profit for the year</b>	<b>37.4</b>	36.1
<b>Items that will not be reclassified to the Consolidated Income Statement</b>		
Actuarial gains in the defined benefit pension scheme	(1.9)	0.3
Deferred tax on items that will not be reclassified	0.4	-
	(1.5)	0.3
<b>Items that may be reclassified to Consolidated Income Statement</b>		
Exchange rate adjustments on foreign currency net investments	(8.2)	(8.7)
Gains on fair value of cash flow hedges	1.5	0.4
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	(0.3)	-
Deferred tax on items that may be reclassified	(0.3)	(0.1)
	(7.3)	(8.4)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>28.6</b>	28.0
Attributable to:		
Shareholders of the Company	28.1	27.7
Minority interests	0.5	0.3
	28.6	28.0

**CONSOLIDATED STATEMENT OF  
CHANGES IN EQUITY  
For the year ended 30 September 2015**

	Note	Share capital £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Share- holders' equity £m	Minority interests £m	Total equity £m
<b>At 1 October 2013</b>		5.7	16.2	-	155.0	176.9	1.4	178.3
Total comprehensive income		-	(8.7)	0.3	36.1	27.7	0.3	28.0
Share-based payments		-	-	-	0.7	0.7	-	0.7
Acquisition of businesses		-	-	-	-	-	2.3	2.3
Minority interest put option	13	-	-	-	(2.3)	(2.3)	-	(2.3)
Minority interests acquired		-	-	-	0.9	0.9	(0.9)	-
Tax on items recognised directly in equity		-	-	-	0.5	0.5	-	0.5
Notional purchase of own shares		-	-	-	(1.8)	(1.8)	-	(1.8)
Dividends	14	-	-	-	(18.2)	(18.2)	(0.2)	(18.4)
<b>At 30 September 2014</b>		5.7	7.5	0.3	170.9	184.4	2.9	187.3
Total comprehensive income		-	(8.0)	0.9	35.2	28.1	0.5	28.6
Share-based payments		-	-	-	0.5	0.5	-	0.5
Acquisition of businesses	12	-	-	-	-	-	3.2	3.2
Minority interest put option	13	-	-	-	(3.2)	(3.2)	-	(3.2)
Minority interest acquired		-	-	-	1.2	1.2	(1.2)	-
Tax on items recognised directly in equity		-	-	-	-	-	-	-
Notional purchase of own shares		-	-	-	(1.7)	(1.7)	-	(1.7)
Dividends	14	-	-	-	(19.7)	(19.7)	(0.2)	(19.9)
<b>At 30 September 2015</b>		5.7	(0.5)	1.2	183.2	189.6	5.2	194.8

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 30 September 2015**

	Note	2015 £m	2014 £m
<b>NON-CURRENT ASSETS</b>			
Goodwill	10	89.3	80.2
Acquisition intangible assets		40.2	28.6
Other intangible assets		1.2	0.8
Investment	11	0.7	0.7
Property, plant and equipment		22.8	13.1
Deferred tax assets		0.4	0.9
		<b>154.6</b>	124.3
<b>CURRENT ASSETS</b>			
Inventories		56.6	54.1
Trade and other receivables		51.3	46.3
Cash and cash equivalents	9	23.0	21.3
		<b>130.9</b>	121.7
<b>CURRENT LIABILITIES</b>			
Trade and other payables		(45.1)	(43.9)
Current tax liabilities		(2.9)	(2.3)
Other liabilities	13	(2.5)	(1.6)
		<b>(50.5)</b>	(47.8)
<b>NET CURRENT ASSETS</b>			
		<b>80.4</b>	73.9
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>235.0</b>	198.2
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	9	(20.0)	-
Retirement benefit obligations		(9.8)	(4.3)
Other liabilities	13	(4.1)	(2.4)
Deferred tax liabilities		(6.3)	(4.2)
<b>NET ASSETS</b>			
		<b>194.8</b>	187.3
<b>EQUITY</b>			
Share capital		5.7	5.7
Translation reserve		(0.5)	7.5
Hedging reserve		1.2	0.3
Retained earnings		183.2	170.9
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>189.6</b>	184.4
Minority interests		5.2	2.9
<b>TOTAL EQUITY</b>			
		<b>194.8</b>	187.3

# **CONSOLIDATED CASH FLOW STATEMENT** **For the year ended 30 September 2015**

	Note	2015 £m	2014 £m
<b>OPERATING PROFIT</b>		<b>52.9</b>	50.3
Acquisition related charges	8	<b>7.4</b>	6.4
Non-cash items	8	<b>3.7</b>	2.9
Increase in working capital	8	<b>(1.9)</b>	(4.6)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>62.1</b>	55.0
Interest paid, net		<b>(0.5)</b>	(0.3)
Tax paid		<b>(15.4)</b>	(13.0)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>46.2</b>	41.7
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Acquisition of businesses (including expenses)	12	<b>(36.6)</b>	(14.9)
Deferred consideration paid	13	<b>(0.6)</b>	(0.1)
Purchase of property, plant and equipment		<b>(4.0)</b>	(1.9)
Purchase of other intangible assets		<b>(0.3)</b>	(0.3)
Proceeds from sale of property, plant and equipment		<b>0.1</b>	0.1
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(41.4)</b>	(17.1)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Acquisition of minority interests	13	<b>(0.6)</b>	(1.5)
Dividends paid to shareholders	14	<b>(19.7)</b>	(18.2)
Dividends paid to minority interests		<b>(0.2)</b>	(0.2)
Purchase of own shares by Employee Benefit Trust		<b>(0.7)</b>	-
Notional purchase of own shares on exercise of share options		<b>(1.0)</b>	(1.8)
Proceeds of borrowings, net	9	<b>20.0</b>	-
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(2.2)</b>	(21.7)
<b>Net increase in cash and cash equivalents</b>		<b>2.6</b>	2.9
Cash and cash equivalents at beginning of year		<b>21.3</b>	19.3
Effect of exchange rates on cash and cash equivalents		<b>(0.9)</b>	(0.9)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	9	<b>23.0</b>	21.3

<b>ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)</b>		2015 £m	2014 £m
Net increase in cash and cash equivalents		<b>2.6</b>	2.9
Add:			
Dividends paid to shareholders	14	<b>19.7</b>	18.2
Dividends paid to minority interests		<b>0.2</b>	0.2
Acquisition of businesses	12	<b>36.6</b>	14.9
Acquisition of minority interests	13	<b>0.6</b>	1.5
Deferred consideration paid	13	<b>0.6</b>	0.1
Proceeds of borrowings, net	9	<b>(20.0)</b>	-
<b>FREE CASH FLOW</b>		<b>40.3</b>	37.8
Cash and cash equivalents		<b>23.0</b>	21.3
Borrowings		<b>(20.0)</b>	-
<b>NET CASH</b>	9	<b>3.0</b>	21.3

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## For the year ended 30 September 2015

### 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 16 November 2015. These statements are presented in UK sterling, with all values rounded to the nearest one hundred thousand, except where otherwise indicated.

The consolidated financial statements, which have been prepared on a going concern basis, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union and in accordance with the Companies Act 2006, as applicable to companies reporting under IFRS. The accounting policies have been consistently applied in 2015 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 2015.

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 2015 and 2014. Statutory financial statements for the year ended 30 September 2014 have been delivered to the Registrar of Companies and are available on the website at [www.diplomaplc.com](http://www.diplomaplc.com). The statutory financial statements for the year ended 30 September 2015, which were approved by the Directors on 16 November 2015, will be sent to shareholders on 4 December 2015 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 2015 and 2014. 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 20 January 2016 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")) financial measures which are not defined within IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and as such, these measures are important and should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in this Preliminary Announcement.

#### 2.1 Adjusted operating profit

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

#### 2.2 Adjusted profit before tax

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

#### 2.3 Adjusted earnings per share

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 September 2015

#### 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 distributions to shareholders.

#### 2.5 Trading capital employed and ROATCE

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

### 3. BUSINESS SECTOR ANALYSIS

For management reporting purposes, the Group is organised into three main 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 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	
	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue								
- existing businesses	90.2	91.4	128.3	119.8	91.1	94.6	309.6	305.8
- acquisitions	12.9	-	11.3	-	-	-	24.2	-
<b>Revenue</b>	<b>103.1</b>	<b>91.4</b>	<b>139.6</b>	<b>119.8</b>	<b>91.1</b>	<b>94.6</b>	<b>333.8</b>	<b>305.8</b>
Adjusted operating profit								
- existing businesses	19.2	19.7	23.5	21.7	14.5	15.3	57.2	56.7
- acquisitions	1.8	-	1.3	-	-	-	3.1	-
<b>Adjusted operating profit</b>	<b>21.0</b>	<b>19.7</b>	<b>24.8</b>	<b>21.7</b>	<b>14.5</b>	<b>15.3</b>	<b>60.3</b>	<b>56.7</b>
Acquisition related charges	(3.1)	(2.3)	(3.6)	(3.2)	(0.7)	(0.9)	(7.4)	(6.4)
<b>OPERATING PROFIT</b>	<b>17.9</b>	<b>17.4</b>	<b>21.2</b>	<b>18.5</b>	<b>13.8</b>	<b>14.4</b>	<b>52.9</b>	<b>50.3</b>

Acquisition related charges of £7.4m (2014: £6.4m) comprises £6.9m (2014: £5.6m) of amortisation of acquisition intangible assets and £0.5m of acquisition expenses (2014: £0.8m).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## For the year ended 30 September 2015

### 3. BUSINESS SECTOR ANALYSIS (continued)

	Life Sciences		Seals		Controls		Group	
	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m
Operating assets	31.4	29.3	60.0	45.0	36.0	37.2	127.4	111.5
Investment	-	-	0.7	0.7	-	-	0.7	0.7
Goodwill	44.9	44.2	29.6	21.0	14.8	15.0	89.3	80.2
Acquisition intangible assets	13.0	10.1	25.4	15.8	1.8	2.7	40.2	28.6
	89.3	83.6	115.7	82.5	52.6	54.9	257.6	221.0
Unallocated assets:								
– Deferred tax assets							0.4	0.9
– Cash and cash equivalents							23.0	21.3
– Corporate assets							4.5	2.8
<b>TOTAL ASSETS</b>	<b>89.3</b>	<b>83.6</b>	<b>115.7</b>	<b>82.5</b>	<b>52.6</b>	<b>54.9</b>	<b>285.5</b>	<b>246.0</b>
Operating liabilities	(14.7)	(14.7)	(16.2)	(14.6)	(13.5)	(14.9)	(44.4)	(44.2)
Unallocated liabilities:								
– Deferred tax liabilities							(6.3)	(4.2)
– Retirement benefit obligations							(9.8)	(4.3)
– Acquisition liabilities							(6.6)	(4.0)
– Corporate liabilities							(3.6)	(2.0)
– Borrowings							(20.0)	-
<b>TOTAL LIABILITIES</b>	<b>(14.7)</b>	<b>(14.7)</b>	<b>(16.2)</b>	<b>(14.6)</b>	<b>(13.5)</b>	<b>(14.9)</b>	<b>(90.7)</b>	<b>(58.7)</b>
<b>NET ASSETS</b>	<b>74.6</b>	<b>68.9</b>	<b>99.5</b>	<b>67.9</b>	<b>39.1</b>	<b>40.0</b>	<b>194.8</b>	<b>187.3</b>
<b>OTHER SECTOR INFORMATION</b>								
Capital expenditure	2.5	1.2	1.5	0.5	0.3	0.5	4.3	2.2
Depreciation and amortisation	1.7	1.3	1.3	0.7	0.5	0.5	3.5	2.5

Alternative Performance Measures (Note 2)	Life Sciences		Seals		Controls		Group	
	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m
<b>NET ASSETS</b>	<b>74.6</b>	<b>68.9</b>	<b>99.5</b>	<b>67.9</b>	<b>39.1</b>	<b>40.0</b>	<b>194.8</b>	<b>187.3</b>
Add/(deduct):								
- Deferred tax, net							5.9	3.3
- Retirement benefit obligations							9.8	4.3
- Acquisition liabilities							6.6	4.0
- Net cash funds							(3.0)	(21.3)
<b>REPORTED TRADING CAPITAL EMPLOYED</b>							<b>214.1</b>	<b>177.6</b>
- Historic goodwill and acquisition related charges, net of deferred tax	25.0	22.3	20.2	19.6	8.4	7.7	53.6	49.6
<b>ADJUSTED TRADING CAPITAL EMPLOYED</b>	<b>99.6</b>	<b>91.2</b>	<b>119.7</b>	<b>87.5</b>	<b>47.5</b>	<b>47.7</b>	<b>267.7</b>	<b>227.2</b>
<b>ROATCE<sup>(1)</sup></b>	<b>21.1%</b>	<b>21.9%</b>	<b>23.7%</b>	<b>26.0%</b>	<b>30.5%</b>	<b>33.2%</b>	<b>23.9%</b>	<b>25.8%</b>

<sup>(1)</sup>ROATCE is calculated after adjusting for the timing of acquisitions completed during in the year.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## For the year ended 30 September 2015

### 4. GEOGRAPHIC SECTOR ANALYSIS BY ORIGIN

	Revenue		Adjusted operating profit		Non-current assets <sup>(1)</sup>		Trading capital employed		Capital expenditure	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
United Kingdom	87.7	85.7	14.5	13.8	25.2	23.8	42.7	39.7	0.4	0.5
Rest of Europe	77.1	53.2	11.7	7.9	57.1	22.0	71.6	32.2	0.5	0.1
North America <sup>(2)</sup>	169.0	166.9	34.1	35.0	71.2	76.9	99.8	105.7	3.4	1.6
	333.8	305.8	60.3	56.7	153.5	122.7	214.1	177.6	4.3	2.2

<sup>(1)</sup> Non-current assets exclude the investment and deferred tax assets.

<sup>(2)</sup> North America includes the Australian Healthcare businesses.

### 5. FINANCIAL EXPENSE, NET

	2015 £m	2014 £m
<b>Interest and similar income</b>		
- interest receivable on short term deposits	-	0.1
<b>Interest expense and similar charges</b>		
- bank facility and commitment fees	(0.2)	(0.4)
- interest payable on bank and other borrowings	(0.3)	-
- notional interest expense on the defined benefit pension schemes	(0.2)	(0.2)
	(0.7)	(0.6)
<b>Net interest expense</b>	(0.7)	(0.5)
- fair value remeasurement of put options (note 13)	(0.4)	-
<b>FINANCIAL EXPENSE, NET</b>	<b>(1.1)</b>	<b>(0.5)</b>

The fair value remeasurement of £0.4m (2014: £Nil) comprises £0.5m (2014: £0.1m) which relates to an unwinding of the discount on the liability for future purchases of minority interests, net of a movement in fair value of the put options of £0.1m credit (2014: £0.1m credit).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 September 2015

#### 6. TAX EXPENSE

	2015 £m	2014 £m
<b>Current tax</b>		
The tax charge is based on the profit for the year and comprises:		
- UK corporation tax	2.6	2.6
- Overseas tax	12.5	12.1
	15.1	14.7
Adjustments in respect of prior year:		
- UK corporation tax	(0.1)	(0.1)
- Overseas tax	0.4	(0.4)
<b>Total current tax</b>	15.4	14.2
<b>Deferred tax</b>		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
- United Kingdom	(1.0)	-
- Overseas	-	(0.5)
<b>Total deferred tax</b>	(1.0)	(0.5)
<b>TOTAL TAX ON PROFIT FOR THE YEAR</b>	14.4	13.7

The Group earns its profits in the UK and Overseas. The UK corporation tax rate reduced from 21.0% to 20.0% on 1 April 2015; however as the Group prepares its consolidated financial statements for the year to 30 September, the effective tax rate for UK corporation tax in respect of the year ended 30 September 2015 was 20.5% (2014: 22.0%). The Group's net overseas tax rate is higher than that in the UK, primarily because the profits earned in the US are taxed at rates of up to ca. 38%.

The UK deferred tax assets and liabilities at 30 September 2015 have been calculated based on the rate of 20% substantively enacted at 30 September 2015. On 8 July 2015, HM Government announced a reduction in the rate of corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. The impact of re-measuring the Group's UK deferred tax assets and liabilities at these new rates has not been recognised in these consolidated financial statements as the Finance Bill had not been substantively enacted at 30 September 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## For the year ended 30 September 2015

### 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 113,007,084 (2014: 112,893,129) and the profit for the year attributable to shareholders of £36.7m (2014: £35.5m). There were no potentially dilutive shares.

#### Adjusted earnings per share

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

	2015 pence per share	2014 pence per share	2015 £m	2014 £m
<b>Profit before tax</b>			<b>51.8</b>	49.8
Tax expense			<b>(14.4)</b>	(13.7)
Minority interests			<b>(0.7)</b>	(0.6)
<b>Earnings for the year attributable to shareholders of the Company</b>	<b>32.5</b>	31.4	<b>36.7</b>	35.5
Acquisition related charges	<b>6.5</b>	5.7	<b>7.4</b>	6.4
Fair value remeasurement of put options	<b>0.4</b>	-	<b>0.4</b>	-
Tax effects on acquisition related charges and fair value remeasurements	<b>(1.2)</b>	(1.0)	<b>(1.3)</b>	(1.1)
<b>ADJUSTED EARNINGS</b>	<b>38.2</b>	36.1	<b>43.2</b>	40.8

### 8. RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES

	2015 £m	2015 £m	2014 £m	2014 £m
<b>Operating profit</b>		<b>52.9</b>		50.3
Acquisition related charges		<b>7.4</b>		6.4
<b>Adjusted operating profit</b>		<b>60.3</b>		56.7
Depreciation or amortisation of tangible and other intangible assets	<b>3.5</b>		2.5	
Share-based payments expense	<b>0.5</b>		0.7	
Cash paid into defined benefit schemes	<b>(0.3)</b>		(0.3)	
<b>Non-cash items</b>		<b>3.7</b>		2.9
<b>Operating cash flow before changes in working capital</b>		<b>64.0</b>		59.6
Increase in inventories	-		(4.6)	
Decrease/(increase) in trade and other receivables	<b>0.2</b>		(3.1)	
(Decrease)/increase in trade and other payables	<b>(2.1)</b>		3.1	
<b>Increase in working capital</b>		<b>(1.9)</b>		(4.6)
<b>Cash flow from operating activities, before acquisition expenses</b>		<b>62.1</b>		55.0

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 September 2015

#### 9. NET CASH

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

	2015 £m	2014 £m
Net increase in cash and cash equivalents	2.6	2.9
Increase in borrowings	(20.0)	-
	(17.4)	2.9
Effect of exchange rates	(0.9)	(0.9)
<b>Movement in net cash</b>	<b>(18.3)</b>	2.0
Net cash at beginning of year	21.3	19.3
<b>NET CASH AT END OF YEAR</b>	<b>3.0</b>	21.3
<b>Comprising:</b>		
Cash and cash equivalents	23.0	21.3
Borrowings	(20.0)	-
<b>NET CASH AT 30 SEPTEMBER</b>	<b>3.0</b>	21.3

The Group has a committed multi-currency £40m revolving bank facility with an accordion option to increase this facility to £50m, subject to market pricing. During the year the Group exercised part of the accordion option in respect of £15m and increased the committed bank facility to £40m. At 30 September 2015, the remaining accordion option available is £10m. This bank facility expires on 23 June 2017. Interest on this facility is payable between 120 and 170bps 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 2013	47.3	16.6	14.6	78.5
Acquisitions	0.3	5.0	0.7	6.0
Exchange adjustments	(3.4)	(0.6)	(0.3)	(4.3)
At 30 September 2014	44.2	21.0	15.0	80.2
Acquisitions (note 12)	5.6	8.1	-	13.7
Adjustment to acquisitions in prior year	-	0.1	-	0.1
Exchange adjustments	(4.9)	0.4	(0.2)	(4.7)
<b>AT 30 September 2015</b>	<b>44.9</b>	<b>29.6</b>	<b>14.8</b>	<b>89.3</b>

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

The key assumptions used to prepare the cash flow forecasts relate to gross margins, revenue growth rates and the discount rate. The gross margins are assumed to remain sustainable, which is supported by historical experience; revenue growth rates generally approximate to the long term average rates for the markets in which the business operates, unless there are particular factors relevant to a business, such as start-ups. The annual growth rates used in the cash flow forecasts for the next five years represent the budgeted rates for 2016 and thereafter, average growth rates for each Sector; these annual growth rates then reduce to 2% over the longer term.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 September 2015

#### 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% (2014: 13%). 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

	2015 £m	2014 £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 2015, there was no material difference between the book value of this investment and its fair value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 September 2015

#### 12. ACQUISITION OF BUSINESSES

On 6 October 2014, the Group acquired 80% of Techno-Path (Distribution) Limited ("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 (€4.1m) 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 become 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.

On 13 July 2015, the Group acquired 100% of Swan Seals (Aberdeen) Limited ("Swan") for initial consideration of £2.4m and before acquisition expenses of £0.1m.

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

	Kubo		TPD		Swan		Total	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m	£m	£m	£m	£m
Acquisition intangible assets	-	11.0	-	7.2	-	1.6	-	19.8
Deferred tax	(0.4)	(2.8)	-	(0.9)	-	(0.3)	(0.4)	(4.0)
Property, plant and equipment	4.4	8.5	0.4	0.4	-	-	4.8	8.9
Inventories	2.6	2.5	2.1	2.0	0.1	0.1	4.8	4.6
Trade and other receivables	3.3	3.2	1.5	1.5	0.2	0.2	5.0	4.9
Trade and other payables	(2.9)	(3.1)	(1.2)	(1.6)	(0.2)	(0.2)	(4.3)	(4.9)
Retirement benefit obligations	-	(3.7)	-	-	-	-	-	(3.7)
Net assets acquired	7.0	15.6	2.8	8.6	0.1	1.4	9.9	25.6
Goodwill	7.9	7.1	-	5.6	-	1.0	7.9	13.7
Minority of share of net assets (including goodwill)	-	-	-	(3.2)	-	-	-	(3.2)
	14.9	22.7	2.8	11.0	0.1	2.4	17.8	36.1
Cash paid		27.3		9.6		2.4		39.3
Debt acquired		-		1.5		-		1.5
Cash acquired		(4.6)		(0.1)		-		(4.7)
Expenses of acquisition		0.2		0.2		0.1		0.5
<b>Net cash paid, after acquisition expenses</b>		<b>22.9</b>		<b>11.2</b>		<b>2.5</b>		<b>36.6</b>
Less: Expenses of acquisition		(0.2)		(0.2)		(0.1)		(0.5)
<b>Total consideration</b>		<b>22.7</b>		<b>11.0</b>		<b>2.4</b>		<b>36.1</b>

Goodwill of £13.7m 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 2015, the newly acquired TPD business contributed £12.9m to revenue and £1.8m to adjusted operating profit and the newly acquired Kubo and Swan businesses contributed £11.3m to revenue and £1.3m 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 £34.4m to revenue and £4.4m 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## For the year ended 30 September 2015

### 13. OTHER LIABILITIES

	2015 £m	2014 £m
Future purchases of minority interests	5.7	3.5
Deferred consideration	0.9	0.5
	<b>6.6</b>	<b>4.0</b>
Analysed as:		
Due within one year	2.5	1.6
Due after one year	4.1	2.4

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

	2015 £m	2014 £m
At 1 October	3.5	2.8
Acquisition of minority interests	(1.4)	(1.6)
Put options entered into during the year	3.2	2.3
Unwinding of discount	0.5	0.1
Fair value remeasurements	(0.1)	(0.1)
<b>AT 30 SEPTEMBER</b>	<b>5.7</b>	<b>3.5</b>

At 30 September 2015, the Group retained put options to acquire minority interests in TPD, Kentek and M Seals. As described in note 12, 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 and following the exercise of a put option, the Group acquired 10% of the minority interest outstanding in Kentek for an initial consideration of £0.6m (€0.8m) with a further amount payable of £0.8m (€1.0m), which is based on the performance of the business in the year ended 30 September 2015.

At 30 September 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 30 September 2015.

This led to a remeasurement of the fair value of these put options and the liability was reduced by £0.1m (2014: reduced by £0.1m). This reduction was offset by the charge from unwinding the discount on the liability and in aggregate £0.4m (2014: £Nil) has been charged to the Consolidated Income Statement.

The put options to acquire the minority interest of 20% held in TPD are exercisable in tranches between 2016 and 2019; the put option to acquire the minority interest of 10% held in M Seals is exercisable in October 2018 and the put option relating to the remaining Kentek 10% minority interest is exercisable in two tranches in 2016 and 2018.

At 30 September 2015, deferred consideration of £0.9m included £0.8m (€1.0m) payable to the vendor of Kentek in respect of the outstanding amount relating to the purchase of this minority interest. 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 ended 30 September 2015. Both these amounts are expected to be paid within the next twelve months. During the year, aggregate deferred consideration of £0.6m was paid which comprised £0.3m (€0.5m) to the vendor of Kentek relating to final consideration payable based on the performance of the business in the year ended 31 December 2014, 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 September 2015

#### 14. DIVIDENDS

	2015 pence per share	2014 pence per share	2015 £m	2014 £m
Interim dividend, paid in June	5.8	5.4	6.6	6.1
Final dividend of the prior year, paid in January	11.6	10.7	13.1	12.1
	17.4	16.1	19.7	18.2

The Directors have proposed a final dividend in respect of the current year of 12.4p per share (2014: 11.6p) which will be paid on 27 January 2016, subject to approval of shareholders at the Annual General Meeting on 20 January 2016. The total dividend for the current year, subject to approval of the final dividend, will be 18.2p per share (2014: 17.0p).

#### 15. EXCHANGE RATES

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

	Average		Closing	
	2015	2014	2015	2014
US dollar (US\$)	1.54	1.66	1.51	1.62
Canadian dollar (C\$)	1.91	1.80	2.03	1.81
Australian dollar (A\$)	1.99	1.81	2.16	1.85
Euro (€)	1.35	1.23	1.36	1.28

#### 16. SUBSEQUENT EVENTS

On 12 October 2015 the Group completed the acquisition of 100% of West Coast Industrial Supplies Pty Limited based in Perth, Australia and its affiliate company, West Coast Industrial Supplies New Caledonia SAS based near Noumea in New Caledonia (together "WCIS") for an aggregate maximum consideration of £9.8m (A\$20.5m). The initial cash paid on acquisition was £8.5m (A\$17.6m) but is subject to further adjustment for actual net assets at completion. Deferred consideration is also payable based on the performance of WCIS over the next twelve months and on the renewal of specific customer contracts. The WCIS businesses are established suppliers of gaskets, seals and associated products and services with a focus on the mining and power generation markets.

A review to determine fair values of the net assets acquired will be completed during the next financial year.