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DIPLOMA PLC

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FOR IMMEDIATE RELEASE

21 November 2016

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2016

"Strong Results and Excellent Free Cash Flow"

	Audited 2016 £m	Audited 2015 £m	
Revenue	382.6	333.8	+15%
Adjusted operating profit(1)	65.7	60.3	+9%
Adjusted operating margin(1)	17.2%	18.1%	
Adjusted profit before tax(1),(2)	64.9	59.6	+9%
Profit before tax	54.0	51.8	+4%
Profit for the year	39.1	37.4	+5%
Free cash flow(3)	59.0	40.3	+46%
	Pence	Pence	
Adjusted earnings per share(1),(2)	41.9	38.2	+10%
Basic earnings per share	33.9	32.5	+4%
Total dividend per share	20.0	18.2	+10%

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

Financial Highlights

- Revenue and adjusted operating profit increased by 15% and 9%, respectively.
- Businesses acquired added 8% to Group revenues; currency movements increased revenues by 4%; underlying revenue growth of 3%.
- Adjusted operating margins remained broadly in line with the first half of the year at 17.2% with continuing transactional currency effects in Healthcare businesses.
- Adjusted profit before tax and adjusted EPS increased by 9% to £64.9m and 10% to 41.9p, respectively.
- Free cash flow increased by 46% to £59.0m, with an inflow of £6.3m from reduced working capital and proceeds from sale of assets of £4.6m.
- Strong balance sheet with net cash funds of £10.6m at end of September.
- Acquisition expenditure of £32.7m this year; ca. £90m invested over 3 years in acquiring value enhancing businesses.
- Total dividend increased by 10% to 20.0p 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 continuing to face tough markets as hospitals maintain their focus on cost control.

- Seals revenues increased by 1% on an underlying basis with continued slow growth in North American Construction and Industrial markets.

- Controls revenues increased by 4% on an underlying basis with strong performances in Aerospace, Defence and Motorsport, offsetting weaker Industrial markets.

- Another strong year of acquisitions, with WCIS in Australia, Cablecraft in the UK and Ascome in France extending the scope of the Group's Seals and Controls businesses and opening up new growth opportunities.

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

"Diploma has a strong and resilient business model with a broad geographic spread of businesses, supported by a robust balance sheet and consistently high free cash flow. This model has delivered a strong result this year benefitting from a good contribution from acquisitions and boosted by a currency tailwind in the final quarter.

Despite the current macro-economic uncertainty in the global environment, the Board remains confident that the Group will continue to make further progress in the coming year from a combination of steady GDP plus organic growth and a strong and successful acquisition programme."

There will be a presentation of the results to analysts and investors at 9.00am this morning at Pewterers' Hall, Oat Lane, City of London, EC2V 7DE. This presentation will be made available as a webcast from 2.00pm GMT via www.diplomaplc.com

For further information please contact:

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Notes:

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 incremental 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. 1,600 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. 8% p.a. through a combination of organic growth and acquisitions. Diploma is a member of the FTSE 250 with a market capitalisation of ca. £1bn.

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

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS
FOR YEAR ENDED 30 SEPTEMBER 2016

CHAIRMAN'S STATEMENT

The Group achieved a strong performance this year against a background of political volatility and challenging economic conditions in a number of our markets. Diploma has a long track record of consistent delivery and against this difficult market backdrop our aims and objectives remain unchanged. The Board remains focused on executing the Group's established strategy which is designed to deliver strong, double-digit growth in earnings and shareholder value over the economic cycle.

Faced with a low growth economic environment, the achievement of the Group's objectives this year has been driven by its success in executing its acquisition strategy and bringing carefully selected businesses into the Group, financed by strong cash generation and supported by a robust balance sheet.

Results

Group revenues increased in 2016 by 15% to £382.6m (2015: £333.8m), with acquisitions completed during the year contributing £16.3m and currency movements boosting the revenues of the overseas businesses when translated into UK sterling by £13.8m, when compared with last year. After adjusting for the contribution from acquisitions completed both this year and last year and for currency effects on translation, Group revenues increased by 3% on an underlying basis. Steady underlying revenue growth of 4% in both the Life Sciences and Controls Sectors more than offset a weaker performance from the Seals Sector where underlying revenues increased by 1%.

Adjusted operating profit increased by 9% to £65.7m (2015: £60.3m) and benefited from a contribution of £2.4m from acquisitions completed in the year and £2.7m from currency effects on translation. Adjusted operating margins reduced to 17.2% (2015: 18.1%) reflecting a further impact on gross margins in the Canadian and Australian Healthcare businesses from transactional currency effects because of the weaker Canadian and Australian dollars. Adjusted profit before tax increased by 9% to £64.9m (2015: £59.6m) and adjusted earnings per share ("EPS") increased by 10% to 41.9p (2015: 38.2p), reflecting a slight decrease in the effective tax rate.

The Group again generated very strong free cash flow of £59.0m (2015: £40.3m) which included a cash inflow of £6.3m from reduced working capital and £4.6m of cash realised on the sale of assets. Capital expenditure reduced this year to £3.7m (2015: £4.3m) reflecting lower investment in healthcare field equipment as Canadian hospitals sought to limit their expenditure this year.

It was another good year for acquisition activity with investment of £32.7m (2015: £37.8m) in new businesses during the financial year, extending the Group's activities into new products and geographies in line with our strategic objectives.

The Group's balance sheet remains strong and after investing £32.7m in acquisitions and making distributions to shareholders of £21.0m (2015: £19.7m), the Group's net cash funds increased by £7.6m to £10.6m at 30 September 2016 (2015: £3.0m).

Dividends

The excellent free cash flow, helped by the cash received from the sale of assets this year, together with a positive acquisition environment, has led the Board to recommend an increase in the final dividend of 11% to 13.8p per share (2015: 12.4p). Subject to shareholder approval at the Annual General Meeting, this dividend will be paid on 25 January 2017 to shareholders on the register at 2 December 2016.

The total dividend per share for the year will be 20.0p (2015: 18.2p) which represents a 10% increase on 2015. 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

Early in the year, we saw the retirement of Iain Henderson and Marie-Louise Clayton and the introduction of the Executive Management Group, which completed the process of developing and refreshing the Board. The Group is benefitting from the guidance and support of this strong and experienced team as it pursues the successful implementation of the Group's growth strategy.

Employees

The energy and commitment of our employees is a critical factor in the success of our Group. On behalf of the Board I wish to thank our employees for their commitment and hard work during this year. I remain confident of their ability to continue to respond to the new challenges which we will face in the coming year.

Outlook

Diploma has a strong and resilient business model with a broad geographic spread of businesses, supported by a robust balance sheet and consistently high free cash flow. This model has delivered a strong result this year benefitting from a good contribution from acquisitions and boosted by a currency tailwind in the final quarter.

Despite the current macro-economic uncertainty in the global environment, the Board remains confident that the Group will continue to make further progress in the coming year from a combination of steady GDP plus organic growth and a strong and successful acquisition programme.

CHIEF EXECUTIVE'S REVIEW

In 2016, the Group has delivered a strong performance with hard won underlying organic growth across generally challenging markets, boosted by a good contribution from acquisitions and a currency tailwind in the final quarter.

The Group's revenues increased by 15%, with acquisitions completed during this year and the incremental impact from those completed last year, contributing 8% to revenue growth. Currency movements, on translation of the results from overseas businesses to UK sterling, contributed a further 4% to revenue growth, driven principally by the weakening of UK sterling in the last quarter of the year following the UK's Brexit vote on Europe. After adjusting for acquisitions and currency effects, underlying revenues increased by 3%.

Adjusted operating margins remained broadly in line with the first half of the year at 17.2%, continuing to be impacted by transactional currency effects in the Healthcare businesses and initial dilution from acquired businesses. The low growth environment limited the potential for operational leverage, but tight management of working capital and capital expenditure contributed to a very strong free cash flow performance.

Sector performance

In Life Sciences, reported revenues increased by 7%, with underlying revenues increasing by 4% on a constant currency basis. The Canadian Healthcare businesses faced significant budget pressures driven by the softer economy. The good growth achieved in the first half of the year against weak comparatives, reversed in the second half as comparatives became more challenging. The Healthcare businesses in Australia and Ireland also experienced similar economic and budgetary pressures but managed to deliver good levels of growth through their positioning in growing segments of the market. The Environmental businesses delivered solid GDP plus revenue growth and ended the year with an improved order book.

In Seals, reported revenues increased by 19%, with recent acquisitions contributing 12% to revenue growth and currency movements contributing a further 6% to revenue growth. After adjusting for acquisitions and currency effects, underlying revenues increased by 1%. In North America, core Aftermarket seal and gasket revenues were broadly flat. Strengthening of senior management and new growth initiatives are gaining traction and will position the businesses to take advantage of any increased activity and in particular, potential Infrastructure investment following the US election. Industrial OEM revenues in North America reduced by 1% against the background of generally slow industrial markets. The International Seals businesses outside of North America benefited from the acquisition of WCIS and a full year contribution from Kubo and delivered a 5% underlying increase in revenues, with a particularly strong performance from Kentek.

In Controls, reported revenues increased by 16%, with the acquisitions of Cablecraft and Ascome contributing 11% to revenue growth and currency movements contributing a further 1%. After adjusting for acquisitions and currency effects, underlying revenues increased by 4%, following strong underlying growth in the second half of the year, against less demanding comparatives. The Interconnect businesses delivered modest underlying growth with strong performances in Aerospace, Defence and Motorsport markets offsetting weaker Industrial markets. The Clarendon specialty fasteners business is now managed on a stand-alone basis and delivered strong double-digit growth in sales to aircraft seating and cabin interior manufacturers and to Motorsport teams. Fluid Controls delivered solid growth in revenues with an upturn in refrigeration equipment sales in the second half of the year.

Acquisitions and disposals

The total acquisition expenditure over the last three years has been ca.£90m and these acquisitions contributed 20% of the Group's revenues in 2016.

During the year, the Group invested ca.£33m in acquiring new businesses, principally the acquisitions of Cablecraft in the Controls Sector and WCIS in the Seals Sector. Cablecraft is a leading UK based supplier of cable accessory products which broadens the Interconnect portfolio and extends the range of markets served. WCIS is a supplier of gaskets, seals and associated services which extends the Seals business into the Australasia region.

At the end of the year, the Vantage Healthcare business in Canada completed the sale of its Medivators endoscope reprocessor product line for a gross consideration of £2.8m (net consideration of £2.2m after expenses of sale and integration costs). Vantage has retained its other principal product lines (ca.60% of Vantage revenues) and is now managed as a division of the AMT business. AMT and Vantage together now form a strong Surgical Products business in Canada, with integrated back office and operational functions. Free cash flow in the year also benefited from the sale of three small legacy properties for aggregate proceeds of £2.3m.

The Group's strong balance sheet and free cash flow provide the resources to pursue further acquisition opportunities which will enhance the Group's earnings growth in future years. The Group's pipeline for further acquisitions remains encouraging.

Group strategy and corporate objectives

The Group's strategy is designed to generate strong 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.

The Group's principal corporate objectives are to achieve double-digit growth in adjusted earnings per share ("EPS") over the business cycle, to generate total shareholder return ("TSR") growth in the upper quartile of the FTSE 250 and to deliver progressive dividend growth with two times dividend cover.

This year the Group delivered 10% growth in adjusted EPS, with modest underlying organic growth boosted by a good contribution from acquisitions completed over the last 18 months and from translational currency benefits. TSR growth this year has been 36%, which compares with a 4% increase in the median and a 23% increase in the upper quartile TSR performance of the FTSE 250 index (excluding Investment Trusts). Dividends have increased progressively in each of the last 17 years and this year the dividend has increased by 10%, covered 2.1 times by adjusted EPS.

Business model

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.

The key performance indicators ("KPIs") we use to measure the success of the business model relate to recurring income and stable revenue growth, sustainable and attractive margins and strong cash flow.

This year, underlying organic revenue growth has again been hard won against a background of challenging market conditions across all three Sectors and across all geographies served. Total revenue grew by 15%, of which 3% was underlying organic growth, with the balance coming from acquisitions and translational currency benefits. This continues a trend over five years of 11% compound annual revenue growth, with an average of 4% p.a. underlying organic revenue growth.

Adjusted operating margins this year were 17.2% of revenue, compared with a five-year average of 18.6% and as always there were a number of factors impacting the Group's margin. Margins were negatively impacted again this year by transactional currency effects in the Healthcare businesses, initial dilution from acquired businesses and reduced operating leverage in a lower growth environment. The Group's medium term target for operating margin, in an improved economic environment, remains 18-19%.

Agility and responsiveness in the businesses ensure close management of operating costs and working capital and deliver strong free cash flow. This year, free cash flow was very strong at £59.0m, which represented 124% of adjusted earnings, compared with an average of 96% over the last five years. The principal driver of the strong cash flow this year, was the close management of working capital which was managed back down to 16.6% of revenues by the year end, compared with a five-year average of 16–17%. In addition, free cash flow benefited this year from the sale of the Medivators product line and the sale of certain legacy properties.

Growth strategy

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 objectives for return on total investment.

Again we measure the success of the growth strategy with KPIs, the first of which is acquisition spend. To achieve the Group's objective of strong double-digit growth, acquisition spend at the level of ca.£30m p.a. is targeted. This year, the Group continued to benefit from a positive acquisition environment and invested ca.£33m in acquisitions, bringing the average over three years to ca.£30m p.a. The acquisitions completed over the last three years contributed 20% of 2016 revenues.

The Group's return on total investment measure is the pre-tax return on adjusted trading capital employed, excluding net cash, but including all goodwill and acquired intangible assets ("ROATCE"). This is used to measure the overall performance of the Group and very importantly our success in creating value for shareholders through our acquisition programme. Over the last five years, ROATCE has comfortably exceeded the 20% target and this year was 21.1%.

Management strength

The success of the Group is built upon strong, self-standing management teams in the operating businesses, making decisions close to the customer and agile and responsive to changes in the market and competitive environment. The Group places very high importance on planning the development, motivation and reward structures for the ca.90 senior managers which make up the senior management cadre. This group has an average age of 47 and an average length of service of 11 years.

Although we place high importance on our decentralised organisation and the entrepreneurial culture this encourages, we also recognise that there are significant synergy benefits which can be achieved through managing clusters of similar businesses. Typically these synergies come in the form of cross-selling and joint purchasing between the businesses and shared back-office functions in finance and administration. There are also best practices which can be shared within the clusters in areas such as IT and digital capabilities.

At the beginning of this year, a formal Executive Management Group ("EMG") was established to ensure that we have a strong and broad based senior management team in place to support the next stage of the Group's growth strategy. The members of the EMG are the senior managers responsible for the major business clusters and for certain key Group functions. The EMG combines individuals who have developed internally as well as selective external recruits. The EMG gives the senior management bench strength to manage a growing and broadly spread Group, while laying the groundwork for succession in key Executive positions.

SECTOR DEVELOPMENTS

LIFE SCIENCES

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

	2016	2015
Revenue	£109.9m	£103.1m
Adjusted operating profit	£19.6m	£21.0m
Adjusted operating margin	17.8%	20.4%
Free cash flow	£19.0m	£15.6m

- Sector revenue growth of 7%; underlying growth of 4% after adjusting for currency
- In Canada, DHG revenues broadly flat with growth in Surgical Products offsetting reduced capital spend in Clinical Diagnostics; Vantage sold Medivators product line for £2.8m in September 2016
- In Australia, strong growth despite similar economic and budget pressures to Canada
- TPD in Ireland and the UK delivered a second year of good growth since acquisition; facility investment provides significant capacity to support DHG's growth in Europe
- Environmental businesses showed steady growth and ended the year with an improved order book

Reported revenues of the Life Sciences businesses increased by 7% to £109.9m (2015: £103.1m). Currency movements, on translation of the results from overseas businesses into UK sterling, contributed 3% to revenue growth; on a constant currency basis, underlying revenues increased by 4%.

Gross margins in the Healthcare businesses continued to be impacted on a transactional basis by the depreciation of the Canadian and Australian dollars relative to the US dollar. Realised exchange rates have stabilised in the second half of 2016, but at a level ca.10% below the average levels in 2015. Local management has continued to work closely with suppliers and customers to obtain pricing support but overall Healthcare gross margins reduced by 350bps compared to the prior year. The opportunity to mitigate the transactional currency effects through operating cost management is now limited and though Environmental margins have improved modestly, Sector adjusted operating margins have reduced by 260bps. Adjusted operating profits reduced by 7% to £19.6m (2015: £21.0m).

The Life Sciences businesses invested £1.9m in new capital during 2016 of which £0.9m (2015: £1.9m) was spent on acquiring field equipment for placement in hospitals and diagnostic laboratories. A further £0.6m was spent on completing the refurbishment of the new stand-alone leasehold facility for the TPD business in Ireland and £0.4m was spent on upgrading the general IT infrastructure of the businesses in Life Sciences. Free cash flow generated in 2016 increased by £3.4m to £19.0m of which £2.2m related to the disposal of the Medivators product line and the balance was due to a reduction in working capital.

Healthcare

The DHG group of Healthcare businesses, which account for 83% of Life Sciences revenues, increased underlying revenues by 3% in constant currency terms; on translation to UK sterling, reported revenues increased by 6%.

In Canada, DHG revenues were broadly flat for the year as significant budget pressures continued to be felt throughout the Provincial healthcare systems, driven by the tough economic environment. Revenue growth achieved in the first half of the year against weak comparatives was reversed in the second half as comparatives became more challenging. Reduced revenues in the Somagen clinical diagnostics business were broadly offset by growth in revenues in the surgical products businesses and in particular, strong Vantage results in the GI segment.

Somagen’s consumable and service revenues were broadly flat, but capital revenues for the year reduced by ca.40%. The core clinical diagnostics business continued to be impacted by the freeze in capital spending in Quebec while the Province completes both the creation of integrated Health Centres under its “Bill 10” legislation and the Optilab reorganisation programme which is designed to achieve cost savings and efficiencies through consolidation of Quebec’s public medical laboratories. Growth was also impacted by the introduction of stricter patient testing criteria in Alberta’s colorectal screening programme, increasing the age threshold for eligibility and thus constraining the number of patient tests. To counter these headwinds, Somagen has generated good revenue growth from its successful a1c diabetes testing programme and has continued to invest in new product introductions designed to broaden Somagen’s product portfolio in new growth segments.

AMT continued to face pricing pressures in its core electrosurgery business from the tender and evaluation processes introduced by Provincial shared services organisations and national group purchasing organisations. AMT has responded by introducing a broader product portfolio, providing customers with more options in major tender awards. AMT has also achieved strong double-digit growth in the supply of specialised surgical instruments and devices used in laparoscopic and other minimally invasive surgical procedures. In particular, strong growth in new surgical segments has been achieved with products sourced from new suppliers which have been added in recent years. These revenues have mitigated the revenue reductions from smoke evacuation products and electrosurgical accessories.

Vantage delivered good growth across its consumable product lines including argon plasma probes, endoscope reprocessor chemicals and other GI endoscopy accessories, including specialised instruments and devices. Results were also boosted by strong growth in revenues across all of Vantage's core capital equipment product lines; this strong performance was against a weak prior year comparative which was constrained last year by delayed capital budget approvals.

In late September 2016, Vantage completed the sale of its Medivators endoscope reprocessor product line to Cantel Medical Corporation ("Cantel") for a gross consideration of £2.8m. Cantel, through its subsidiary Medivators, had been the supplier of these products to Vantage and consistent with its global strategy, had decided to establish a direct operation in Canada to market and sell the Medivators products alongside other Cantel product lines. In addition to purchasing the assets and liabilities of the Medivators product line, Cantel also took on the Vantage facility lease and a large proportion of the Vantage operational employees.

Vantage has retained its other principal product lines (ca.60% of Vantage revenues) and the related key commercial and clinical staff. From the start of the new financial year, Vantage is now being managed as a division of AMT, with integrated warehousing, logistics and back office functions. AMT and Vantage together now form a single, strong Surgical and GI specialty medical device business in Canada with the opportunity to gain good operational leverage from its increased scale.

In Australia, the Healthcare sector has experienced similar economic and budget pressures to Canada, but has the added capacity of private Healthcare spending to offset some of the economic constraints. Against this background, the BGS and DSL businesses have increased revenues by 15% in local currency terms. BGS continued to grow surgical product revenues strongly, with smoke evacuation programmes in existing and new accounts continuing to provide the main driver for growth. There was also a steady sales performance in electrosurgical grounding pads, laparoscopic electrodes and the enzymatic products acquired from Chemzyme as the product portfolio continues to grow. DSL has also achieved double-digit revenue growth in its clinical diagnostic products business, with the growth driven by capital equipment sales, in particular of capillary electrophoresis instruments used in testing for multiple myelomas and diabetes. Consumable product sales were broadly flat, reflecting softer prior year capital equipment sales, which is the key demand driver for consumable product revenues.

The TPD business is an established supplier to the Healthcare and Biotechnology markets in Ireland and the UK, acquired by DHG in October 2014. TPD delivered a second year of good revenue growth since acquisition, with growth in Healthcare driven by laboratory quality controls in the clinical diagnostic segment of the hospital laboratory market. There has also been significant growth in TPD's sales of specialty medical devices used in the interventional cardiology and digestive health areas of the hospital market. The Biotechnology product portfolio delivered good revenue growth in both consumables and capital equipment, all associated with rapid microbial identification and used in industrial laboratories across the Pharmaceutical, Food and Water sectors.

The TPD performance was achieved in a year when it completed a major facility move, with the accompanying disruption to operations. In January 2016, TPD consolidated and relocated its operations into an adjacent leased building, which had been refurbished and fitted out to meet TPD's requirements at a total cost of £0.8m. This new facility consolidated a number of fragmented, less efficient operations into a single facility and provides significant capacity to support DHG's growth ambitions in Europe.

Environmental

The a1-group of Environmental businesses in Europe, which account for 17% of Life Sciences Sector revenues, saw revenues increase by 5% in constant currency terms.

The a1-envirosciences business based in Germany increased revenues by 13% in Euro terms and ended the year with an improved order book. The strong growth was driven by demand for containment enclosures for the safe weighing of hazardous materials, particularly from Petrochemical and Pharmaceutical industry customers in Germany. The sales of high end elemental and trace analysers also continued to grow, with the range of mercury analysers seeing increasing demand.

The a1-CBISS business based in the UK saw revenues reduce by 1% with stable revenues from long term service contracts, but reductions in revenues from continuous emissions monitoring systems ("CEMS'). This sector remains buoyant with new Biomass and Energy from Waste ("EFW") plants an important part of the UK's energy portfolio, but competition is increasing in new sites built by major EPC contractors. a1-CBISS is responding by focusing on replacement systems and owner-operator sites where its specialist knowledge and customised software solutions give competitive advantage. The gas detection sector had a weak first half, as the slowdown in sales to Oil & Gas customers continued to impact activity levels, but recovered strongly in the second half. Revenues from service contracts, across both Environmental businesses, continue to grow with each capital installation and now represent a third of the 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.

	2016	2015
Revenue	£166.6m	£139.6m
Adjusted operating profit	£28.2m	£24.8m
Adjusted operating margin	16.9%	17.8%
Free cash flow	£24.9m	£17.8m

- Sector revenue growth of 19% with acquisitions contributing 12%; underlying growth of 1% after adjusting for currency and acquisitions
- In North America, core Aftermarket seal and gasket revenues broadly flat
- Strengthening of senior sales and marketing management and new growth initiatives gaining traction
- Industrial OEM revenues in North America reduced by 1% against background of generally slow industrial markets
- International Seals businesses in EMEA and Australasia now ca.40% of Sector revenues. Underlying revenues increased by 5%, with strong performance by Kentek

Reported revenues of the Seals businesses increased by 19% to £166.6m (2015: £139.6m). The Seals acquisitions completed during last year (Kubo and Swan Seals), along with the first year contribution from the WCIS acquisition (completed in October 2015), added 12% to Sector revenues. Currency movements, on translation of the results from overseas businesses to UK sterling, contributed a further 6% to Sector revenues. After adjusting for these acquisitions and for currency effects, underlying revenues increased by 1%.

Continued progress was made during the year in building a more substantial presence outside North America through a combination of organic growth and acquisition. The International Seals businesses based in the EMEA and Australasia regions, contributed £68.2m to Seals revenues in the year (2015: £47.3m) and now account for ca.40% of Sector revenues.

Across the Seals businesses, gross margins continued to be resilient, underpinned by the business model of superior product availability and added value technical services. The acquired businesses joined the Group with strong gross margins but with higher operating cost ratios and therefore lower initial operating margins. As a result, adjusted operating margins for the Sector reduced by 90bps to 16.9% (2015: 17.8%) and adjusted operating profits increased by 14% to £28.2m (2015: £24.8m).

During the year, the Seals businesses invested £1.4m in the businesses, including an initial payment of £0.5m for the construction of a new facility for J Royal, close to their existing location in North Carolina; the total cost is expected to be ca.£2.5m. On completion of this project (scheduled for April 2017), the facility will be sold and leased back to the business. A further £0.5m was invested in new machinery and tooling, including two new seal cutting machines for the International Seals businesses and a new crane in WCIS. In addition, £0.4m was invested in IT infrastructure, including a substantial upgrade to the ERP information systems in Hercules Bulldog. The free cash flow generated in this Sector, which is after these investments, increased by over 40% to £24.9m reflecting both a full year contribution from the acquired businesses and a large reduction in working capital.

North American Seals
The North American Seals businesses, which account for ca.60% of Seals Sector revenues, saw revenues decrease by 2% on a constant currency basis against strong prior year comparatives. On translation to UK sterling, reported revenues increased by 7% due to the strengthening of the US dollar.

The HFPG Aftermarket businesses reported revenues 3% below last year in US dollar terms, with the core Hercules Bulldog seal and gasket revenues broadly flat against the prior year, but with a substantial reduction in HKX attachment kit revenues in an excavator market which continued to be depressed for most of the year.

In the domestic US market, Hercules Bulldog revenues were constrained by sluggish activity in the Heavy Construction sector, in particular in the resource dependent States. However, positive trends have started to develop in the Repair and Distributor segments and the revenue declines earlier in the year were reversed by the year end. Sales and marketing resources have been strengthened and specific growth initiatives continue to gain traction, including the sale of seal kits to large national rental fleets and contractors through dedicated buying portals. Additional business development focus has also been given to government customers, national accounts and speciality distributors. Additional new product lines have been introduced, including lifting slings and aftermarket cylinders for skid-steer equipment. Online revenues through Webstore continue to increase and now account for ca.20% of domestic US Aftermarket seal revenues.

In Canada, Hercules revenues increased by 3% in Canadian dollar terms despite unfavourable market conditions in the Mining, Quarrying and Oil & Gas sectors. The resulting economic conditions favour the repair market, which has helped to drive revenue growth, along with sales of new products added to the 2016 catalogues in the first half of the year. Orders from hydraulic cylinder manufacturing customers have been relatively flat, mainly as a result of shifting customer demand, rather than significant gains or losses of business. In markets outside North America, Hercules Bulldog export revenues recovered in the second half and finished the year showing 3% growth. Strong growth in Mexico and Central America more than offset declines in resource dependent South American markets.

The HKX attachment kit business experienced a continuing, significant reduction in revenues reflecting the depressed market for new excavators in the US and Canada and the surplus of heavy mobile equipment. The increased proportion of factory installed kits continues to impede HKX's standard kit sales, but HKX is responding by marketing lower cost entry level kits which are upgradeable to provide a more complete range of capabilities. With equipment rentals and leases growing to 50% of new machine sales, HKX is also focusing its sales effort on kit programmes to support the dealer rental and lease operations.

The HFPG Industrial OEM businesses in North America saw revenues reduce by 1% against a background of generally slow industrial markets. J Royal delivered another year of solid growth, with good demand from its water meter and swimming pool equipment customers offsetting reduced demand from gas boiler, fuel management and filtration customers.
RT Dygert and All Seals, which now share sales management and product development

resources, saw revenues reduce by 3% against the prior year. RT Dygert generated good GDP plus levels of growth with its core industrial OEM accounts and distribution customers. However, these gains were more than offset by reduced sales to cylinder manufacturers as their businesses lost share to lower priced offshore suppliers and with reduced sales to catalogue distributors reflecting the weaker industrial markets. All Seals generated growth from customers in the Water and Medical sectors, but this growth was offset by reduced revenues in Aerospace, Oil & Gas and general Industrial OEMs and distributors.

The Industrial OEM businesses continue to respond to the overall low growth environment by maintaining strong relationships with core industrial equipment customers, ensuring high levels of customer service in support of existing projects, as well as offering more specialised material and product specifications to secure new projects. In particular, the businesses continue to look for opportunities to deploy higher specification, regulatory-compliant compounds for industries including Pharmaceutical, Water and Food equipment and for fuel dispensing applications.

International Seals

The International Seals businesses in the EMEA and Australasia regions, now account for ca.40% of Sector revenues and increased revenues by 5% on an underlying basis, after adjusting for currency effects and acquisitions.

The FPE Seals business increased revenues by 3% in UK sterling terms and continued to develop a more substantial, broader-based Aftermarket Seals business. At the beginning of the year, FPE Seals became fully operational from its new facility in Darlington in the UK, which is now the core operational hub for further expansion across the EMEA region. FPE Seals also has a small operation in the Netherlands which it has used as an initial pilot for the launch of the Webstore e-commerce solution. Following the relocation of the Bulldog operation to Tampa in September 2015, FPE experienced some product shipment delays in the first half of the year; the back orders were recovered in the second half to improve full year revenues. Swan Seals in Aberdeen has been impacted by the low oil price environment, but again showed some second half improvement in activity levels.

Kentek increased revenues by 16% in Euro terms and continued to respond well to the challenging economic conditions in Russia and Finland, under pressure from lower global demand in the Oil & Gas and Mining sectors and from the negative impact of economic sanctions on Russia. Despite these challenges and further weakness of the Russian rouble, Kentek delivered strong revenue growth in Russia, with good revenue increases from its newer sales offices. Kentek also benefited from increased investment by the Russian government in the Agricultural and Manufacturing sectors and has won a number of tenders with key Mining customers. In Finland, new management has given additional structure and impetus to the sales efforts which have re-established revenue growth. During the period, Kentek introduced a new own-branded filter range which is now gaining traction.

M Seals increased revenues by 1% in local currency terms with strong revenue growth in the core markets of Denmark and Sweden, where M Seals has built on its strong customer relationships to develop a number of major new projects. This growth was offset by reduced revenues from the M Seals operations in the UK which have been impacted by cut-backs in the Oil & Gas sector, particularly in the first half of the year. In the second half, there has been some recovery in demand and M Seals has seen some initial benefit from increasing sales efforts to specialised Industrial OEMs in other sectors of the UK market.

Kubo revenues decreased by 2% on a like-for-like basis (Swiss franc terms, including pre-acquisition revenues) as it faced challenging market conditions in its core industrial market in Switzerland. The strong Swiss franc (following its decoupling from the Euro in 2015) has made Swiss manufacturers less competitive in export markets and some have relocated production outside Switzerland. Against this background, Kubo has made progress in taking market share from competitors through sales initiatives, technical support and responsiveness. Kubo management has also focused on improving operational efficiency and expanding value adding activities. During the year, Kubo invested in a new seal machining centre to enable the business to respond quickly to urgent customer requirements for specialised seals, as well as replacing externally sourced products.

In October 2015, the Group completed the acquisition of WCIS, a supplier of gaskets, seals and associated products and services located in Australia and New Caledonia. WCIS has core capabilities in gaskets and mechanical seals, used in complex and arduous applications. Since its acquisition, WCIS core customers in the Mining sector as expected have faced difficult market conditions and this has held back revenues. However, progress has been made in Australia in strengthening the team to broaden sales coverage across a wider range of market sectors. In New Caledonia, WCIS signed new three-year contracts with its major customer for the provision of products and services.

CONTROLS

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

	2016	2015
Revenue	£106.1m	£91.1m
Adjusted operating profit	£17.9m	£14.5m
Adjusted operating margin	16.9%	15.9%
Free cash flow	£16.4m	£11.4m

- Sector revenue increased by 16%; underlying increase of 4% after adjusting for currency and acquisitions
- The Interconnect businesses delivered modest underlying growth with strong performances in Aerospace, Defence and Motorsport offsetting weaker Industrial markets
- Strong double-digit growth in Clarendon sales of specialty fasteners to aircraft seating and cabin interior manufacturers and to Motorsport teams
- Acquisition of Cablecraft broadened the Interconnect product line and extended range of markets served
- Fluid Controls delivered solid growth in revenues with upturn in refrigeration equipment sales in second half

Reported revenues of the Controls businesses increased by 16% to £106.1m (2015: £91.1m). The acquisitions of Cablecraft and Ascome, acquired in the first half of the year, added 11% to Sector revenues and currency movements contributed a further 1% to Sector revenues on translation to UK sterling. On an underlying basis, after adjusting for these acquisitions and currency effects, underlying revenues increased by 4%, following strong underlying growth in the second half of the year (9% increase) against less demanding comparatives.

Adjusted operating margins increased by 100bps to 16.9% (2015: 15.9%). Gross margins strengthened in the IS-Group and Clarendon businesses, offsetting margin pressure in the Hawco Group, while operating costs as a percentage of revenue remained broadly stable across the Controls businesses. The stronger operating margins of the newly acquired Cablecraft business also contributed to the improvement in the Sector average. Adjusted operating profits increased by 23% to £17.9m (2015: £14.5m).

Capital expenditure in this Sector remained modest at £0.4m (2015: £0.3m). The focus on developing Clarendon as a stand-alone Specialty Fasteners business led to £0.2m being invested in establishing a separate warehouse and offices for this business within the existing IS-Group facility in Swindon. A further £0.1m was invested in new tooling in Sommer and Cablecraft and £0.1m was spent on the general IT infrastructure across the Controls businesses. Free cash flow increased strongly to £16.4m reflecting stronger trading, including the additional contribution from Cablecraft and a modest reduction in working capital.

Interconnect

The Interconnect businesses account for 76% of Sector revenues and reported a revenue increase of 21% in UK sterling terms. After adjusting for the Cablecraft and Ascome acquisitions and for currency effects, underlying revenues increased by 4%.

The IS-Group businesses in the UK and US saw revenues increase by 2%, with a strong performance in the second half of the year more than compensating for the revenue decline in the first half. In response to the generally low growth environment in its industrial markets, sales resources were realigned to focus on sectors and customer accounts with the highest growth potential. Further business development programmes were also introduced and contributed to the improving trend in the second half of the year. Investments have also been made in developing digital media capabilities and in positioning the IS-Group as the supplier of choice for the full range of specialist cable harnessing components.

In Defence, general activity levels in electrical harnessing customers increased and the IS-Group benefited from specific programmes, including wiring and harness components supplied to the Scout/AJAX armoured fighting vehicle programmes and from communication cables used on submarines. In Aerospace, the IS-Group again benefited from a generally buoyant market, boosted by specific projects, including braided assemblies installed on Airbus A350 fuel pipes.

In Motorsport, activity benefited from additional races in the Formula 1 race schedule and increased investment from Toro Rosso and Renault, as well as from the new entrant Haas and the rebranded Manor Racing team. The IS-Group has also been closely involved with the 2017 America's Cup series, with products widely specified in the Test Boats and now also confirmed in the build programmes for the Race Boats. In the US, strong growth was achieved in its core Motorsport business, as well as related Industrial markets.

Industrial markets in the UK continued to be challenging with Energy revenues in particular showing a significant reduction, driven by the cut-backs in the Oil & Gas industry which have impacted sales of harness components to sub-sea cable manufacturers and other Oil & Gas markets. In Continental Europe, a competitive market saw sales to other sub-distributors reduce significantly in the first half of the year, but stabilise at this lower level in the second half of the year.

In Germany, IS-Sommer and Filcon reported a 3% increase in revenues in local Euro terms. Strong revenue growth in the Energy and Motorsport markets compensated for a weaker performance in Aerospace & Defence, while Industrial markets showed modest growth in line with the general industrial economy in Germany.

In the Energy sector, IS-Sommer has a strong and growing position in the supply of products used in the repair and maintenance of the low and medium-voltage electricity network. Demand for these products has been strong as 2016 has been an assessment year for the German power network which typically triggers a cyclical round of investments; weather conditions have also been favourable. IS-Sommer has increased its share of this growing market by offering good stock availability, experienced technical sales support and competitive pricing based on its purchasing power.

In Motorsport, Filcon achieved strong growth in the supply of specialist connectors to leading teams in a range of racing series; Filcon has the distinction of being the preferred supplier to the World Champions in the Formula 1, Le Mans 24 hour and World Rally Championship series. Increased activity is being seen in the Defence and Military Aerospace sector in Germany, where there is growing pressure on Germany to upgrade its military capabilities. The increased activity did not translate into firm orders until later in the year, but both Filcon and IS-Sommer will carry strong order books into the new financial year.

In February 2016, Filcon completed the acquisition of Ascome, a small distributor of specialist connectors into the Defence and Industrial markets in France. This acquisition provides greater presence for Filcon's operations in France, provides credible access to the French Defence sector and gives access to new products and suppliers.

In March 2016, the Group completed the acquisition of Cablecraft, a leading supplier of cable accessory products which are used to identify, connect, secure and protect electrical cables; own-branded and manufactured products account for ca.80% of revenues. In addition to broadening the Interconnect product portfolio, the acquisition has also extended the range of markets served. Cablecraft supplies to wholesalers and distributors serving electrical contractors in the Construction market and end users in the Rail industry, including signalling equipment specialists. The company also supplies to end users in the Industrial sector, including electric panel builders and contractors providing installation services to the Energy and Utilities sectors.

The Clarendon specialty fastener and component business increased revenues by 16% over the prior year. Last year, Clarendon's deliveries to its key aircraft seating customer were held back by changes to aircraft seat designs and delays to build schedules. In addition, Clarendon's deliveries to its largest customer were reduced during the implementation of a large new lineside supply project, using the "Clarendon Air" solution. This year, revenues have increased strongly as deliveries of inventory were resumed and the customer increased production as its new business class seating programmes ramped up. Clarendon also had significant success increasing sales to other aircraft seating and cabin interiors manufacturers and sub-contractors across Europe and introducing Clarendon Air to a number of new customers.

Clarendon also delivered strong revenue growth in its sales to the Motorsport sector. As with the IS-Group, Clarendon benefited from the increased number of races in Formula 1 as well as the increased investment from new entrants. In addition, revenues were boosted in the fourth quarter by increased development expenditure by teams preparing for design and rule changes planned for the 2017 season. In the Industrial and Defence markets, the business continues to differentiate itself from competitors through its range of own-designed and engineered fastening solutions and added value services.

Fluid Controls

The Hawco Group of Fluid Controls businesses, which account for 24% of Controls sector revenues, reported a 4% growth in revenues against the prior year.

Hawco has seen an upturn in sales in the second half of the year across all its markets and, in particular, from Refrigeration Equipment customers in Continental Europe and Turkey. Hawco has also benefited from establishing relationships with major air conditioning and refrigeration contracting groups who value Hawco's stock holding, next day delivery and exclusive supplier relationships; the partnering with independent trade counters has also proved successful. In the Industrial OEM market, Hawco has seen good success with its range of fire detection products, cartridge heaters and silicon heater lines.

Abbeychart has seen revenue growth pause in its core coffee segment, as overstocking at certain customers is being worked through. However, this is seen as temporary and Abbeychart has continued to enhance its offering of essential parts to service the broad range of espresso type machines being installed in an increasing number of outlets. In the soft drinks market, Abbeychart has continued to increase revenues and take market share, but in the water segment, revenues reduced as plumbed water dispensers continue to lose share against individual bottled water. To offset this decline, Abbeychart has focused growth initiatives in the craft brewing and export markets.

FINANCE REVIEW

Results in 2016

Diploma delivered a strong performance this year, with revenues increasing by 15% to £382.6m and adjusted operating profit increased by 9% to £65.7m. The Group's financial results were characterised by two factors; a strong contribution from businesses acquired during the past three years and the substantial weakening in UK sterling in the last quarter of the financial year, following the UK's Brexit vote on Europe.

The contribution from acquisitions completed both this year and last year was £26.6m to revenue and £4.2m to adjusted operating profit. With ca.75% of the Group's businesses based overseas, the impact on headline results from currency translation has led to an increase in revenues and adjusted operating profits of £13.8m and £2.7m respectively, when translated at last year's exchange rates.

Underlying organic growth in all of the Group's markets remained challenging throughout the year, which led to underlying revenues increasing by 3% this year. However, in this lower growth environment the Group focused on maximising free cash flow, which was again very strong at £59.0m. This will provide the resources to continue to pursue acquisition opportunities which should provide a good base for further earnings growth in future years.

Underlying revenues are after adjusting for the contribution from businesses acquired during the year (and from the incremental impact from those acquired last year) and for the impact on the translation of the results of the overseas businesses from the significant weakening in the UK sterling exchange rate in the last quarter of the year.

Operating margin

Diploma's Healthcare businesses represent ca.25% of Group revenues and their gross margins have again been impacted this year on a transactional basis by the substantial depreciation of the Canadian and Australian dollars, against the US dollar in particular which is the currency in which most of their products are purchased. The depreciation of these two currencies began in late 2013 and has continued through the past two years, reaching a low point in mid-January 2016.

In this financial year, currency depreciation led to a 390bps reduction in the gross margins of the Canadian and Australian Healthcare businesses compared with last year. This reduction was partly mitigated by a combination of forward currency hedges, supplier cost reductions and tight control over operating costs. However, the ability of the Healthcare businesses to continue to mitigate this transactional impact on gross margins is now quite limited.

The Canadian and Australian exchange rates have remained relatively stable since the early part of this year at more favourable levels and this provided the businesses with an opportunity to resume forward currency hedging during the second half of the year. These hedging contracts should provide some respite to the currency pressure on gross margins in the new financial year, although both currencies have begun to weaken again in November 2016.

Transactional currency exposures in the rest of the Group's businesses were not significant during the year, despite the impact on the UK businesses in the last quarter of the year from the substantial weakening in UK sterling.

The Group's adjusted operating margin remained broadly in line with the first half of the year at 17.2% (compared with 18.1% last year), continuing to be impacted by weaker gross margins in the Healthcare businesses. Group operating margins are also impacted by acquired businesses which ordinarily join the Group with initial operating margins which are lower than the Group's operating margin.

Adjusted profit before tax, earnings per share and dividends

Adjusted profit before tax, which excludes the gain on sale of assets, increased by 9% to £64.9m (2015: £59.6m). The finance expense this year was £0.8m (2015: £0.7m) which included £0.4m (2015: £0.3m) of interest costs on borrowings drawn down during the year to help finance acquisitions. The notional interest expense on the Group's defined pension liabilities remained unchanged at £0.2m (2015: £0.2m) and £0.2m was paid as facility commitment fees.

Statutory profit before tax was £54.0m (2015: £51.8m), after acquisition related charges of £10.3m (2015: £7.4m), fair value remeasurements of £1.3m (2015: £0.4m) and a gain of £0.7m (2015: £Nil) on disposal of assets. The acquisition related charges largely comprise the amortisation of acquisition intangible assets and the fair value remeasurements relate to the put options held over minority interests. The increase in the charge for remeasurements reflects the increase in the liability to acquire these minority interests, all of which are overseas interests, as a result of the significant depreciation in UK sterling.

The Group's effective tax charge on adjusted profit in 2016 was 60bps below the previous year at 25.7% of adjusted profit before tax. The charge this year benefited from a further reduction in the UK corporation tax rate to 20% (2015: 20.5%) and from lower tax rates applied to the businesses acquired during the past two years; however the effective tax rate in the US increased to 38% (2015: 36%) because of much lower manufacturing tax credits this year.

Adjusted earnings per share ("EPS") increased by 10% to 41.9p, compared with 38.2p last year and the statutory basic EPS increased to 33.9p (2015: 32.5p).

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 particularly strong free cash flow provides the Directors with confidence to recommend an increase in the final dividend of 11% to 13.8p per share (2015: 12.4p). This gives a total dividend per share for the year of 20.0p per share which represents a 10% increase on the prior year dividend of 18.2p. The dividend remains 2.1 times covered by adjusted EPS as reported last year.

Disposal of assets

The Group made a gain of £0.7m after tax on the sale of assets during the year and this is disclosed separately on the face of the Consolidated Income Statement. The Vantage Healthcare business in Canada disposed of the Medivators product line for consideration of £2.2m, after both expenses of sale and providing for the costs of integrating the retained Vantage business with its affiliate business, AMT based in Kitchener. A gain after tax of £0.3m was realised on this disposal. The Medivators product line accounted for ca.8% of DHG's total revenues in 2016, but only ca.3% of operating profits as a substantial part of the business's infrastructure, including a large proportion of Vantage's operational employees, were transferred to the purchaser as part of the transaction. During the year, the Group also sold three small legacy properties for aggregate proceeds of £2.3m which realised a gain of £0.4m after tax.

Free cash flow

The Group generated very strong free cash flow in 2016 which increased by £18.7m to £59.0m (2015: £40.3m). A reduction in working capital contributed £6.3m to cash resources (2015: outflow of £1.9m) and the proceeds from the sale of assets added a further £4.6m to free cash flow. Free cash flow represents cash available to invest in acquisitions or return to shareholders and this year represented a cash conversion of adjusted earnings of 124% (2015: 93%).

The Group's businesses continued to work hard during the second half of the year to further reduce working capital, particularly in a low growth economic environment. These efforts to reduce working capital were again largely focused on improving inventory procurement processes designed to constrain the growth in inventories across the Group's businesses.

The Group's KPI metric of working capital as a proportion of revenue reduced to 16.6% at 30 September 2016, compared with 17.0% last year; this metric reduces to 15.3% on a constant currency basis.

Group tax payments increased by £2.2m to £17.6m (2015: £15.4m) and included £1.5m of pre-acquisition tax liabilities relating to Cablecraft and WCIS. On an underlying basis and before the currency effects of translation, cash tax payments represented ca.23% of adjusted profit before tax which was unchanged from last year.

The Group's capital expenditure this year was more modest at £3.7m, compared with £4.3m last year. Within this total expenditure, an initial £0.5m was invested by J Royal, a Seals business based in the US, on the construction of a new expanded facility, close by their existing facility in North Carolina. The total construction cost of this facility is expected to be ca.£2.5m on completion in April 2017 when it will be sold and leased back to the business. Operationally, a further £0.9m was invested by the Seals businesses during the year, including £0.5m on acquiring two new seal cutting machines, a new crane and other tooling equipment. A scheduled upgrade of the US Seals ERP system cost £0.2m and £0.2m was spent on general infrastructure improvements across the Sector.

In Life Sciences, Vantage saw its expenditure on funding equipment contracts on a cost per procedure ("CPP") basis reduce to £0.3m (2015: £1.0m). The investment in field equipment acquired in support of customer contracts with hospitals also reduced to £0.6m from £0.9m last year as the Canadian hospitals cut back their expenditure. The completion of the refurbishment of TPD's new leasehold facility in Ireland cost £0.6m and a further £0.4m was invested on general infrastructure improvements across the Sector, including IT upgrades.

Capital expenditure in the Controls businesses remained very modest at £0.4m and included £0.2m on establishing a separate stand-alone warehouse and offices for Clarendon's developing specialty fasteners business in the existing IS-Group facility in Swindon. The remaining £0.2m was invested in new tooling and on upgrading IT infrastructure across the Sector.

The Company paid the PAYE income tax liability of £0.3m (2015: £1.0m) on the exercise of LTIP share awards, in exchange for reduced share awards to participants. No further shares in the Company were acquired by the Employee Benefit Trust this year, following last year's £0.7m expenditure on the acquisition of 100,000 shares.

The Group spent £32.7m of the free cash flow on acquisitions, as described below and £21.4m (2015: £19.9m) on paying dividends to both Company and minority shareholders.

Acquisitions completed during the year

The Group invested a further £32.7m in acquiring new businesses this year (2015: £37.8m), including £1.9m on acquiring outstanding minority interests and £0.7m of deferred consideration.

The largest investment this year of £21.3m was made in March 2016 to acquire Cablecraft, a leading supplier of cable accessory products, managed from its principal facility near Dunstable in the UK. A further £8.4m was invested in October 2015 to acquire the WCIS businesses in Australia and New Caledonia which supply gaskets, sales and associated products mainly to the Mining industry. In February 2016, a small connector business based in France was acquired for £0.4m by Filcon, to broaden its access to the European connector markets.

These acquisitions added £18.4m to the Group's acquired intangible assets, which represents the valuation of customer and supplier relationships which will be amortised over periods ranging from five to ten years. At 30 September 2016, the carrying value of the Group's acquired intangible assets was £54.6m. Goodwill increased by £25.9m to £115.2m at 30 September 2016; £11.8m related to businesses acquired during the year (including fair value adjustments to the assets acquired) and £14.1m reflected the impact on overseas goodwill from the depreciation in the UK sterling exchange rate.

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

Liabilities to minority shareholders

The Group's liability to purchase outstanding minority shareholdings at 30 September 2016 decreased to £5.1m (2015: £5.7m), following the £1.9m purchase in July of an outstanding 10% minority shareholding in TPD. However, the liability at the year end was impacted by the substantial weakening in the UK sterling exchange rate which increased the UK sterling liability payable to these minorities which are all based overseas.

At 30 September 2016, there remain put options over the outstanding minority interests held in M Seals, Kentek and TPD which were valued at £5.1m, based on the Directors' latest estimate of the Earnings before Interest and Tax of these businesses when these options crystallise. None of these options are exercisable within the next year.

In addition to the liability to minority shareholders, the Group also has a liability at 30 September 2016 for deferred consideration of up to £1.7m (2015: £0.9m) which comprises the amount likely to be paid to the vendors of businesses purchased during the year, based on the Group's best estimate of the performance of these businesses next year. During the year, £0.7m was paid as deferred consideration relating to acquisitions completed in earlier years and £0.2m was released and was included as a deduction from acquisition related charges.

Return on adjusted trading capital employed and capital management

A key metric that the Group uses to measure the overall profitability of the Group and its success in creating value for shareholders is the Return on Adjusted Trading Capital Employed ("ROATCE"). At a Group level, this is a pre-tax measure which is applied against the fixed and working capital of the Group, together with all gross intangible assets and goodwill. At 30 September 2016, the Group ROATCE had reduced to 21.1% (2015: 23.9%) which largely reflected the mismatch of a stronger average UK sterling exchange rate used during the year to translate the operating profit of overseas businesses and the much weaker exchange rate used to translate the Adjusted TCE of these overseas businesses at the year end. Adjusted TCE is defined in note 2 to the consolidated financial statements.

The Group continues to maintain a strong balance sheet with net cash funds of £10.6m (2015: £3.0m) at 30 September 2016, comprising cash funds of £20.6m, offset by £10.0m of bank borrowings. Surplus cash funds are generally repatriated to the UK, unless they are required locally to meet certain commitments, including acquisitions.

On 7 March 2016, the Group exercised the final part of the accordion option within its existing revolving multi-currency credit facilities and increased its committed bank facility by £10.0m to the maximum available of £50.0m. These additional funds were provided at a cost of 30bps and were used to assist in financing the acquisition of Cablecraft. These bank facilities are committed until June 2017 and are used to meet any shortfall in cash to fund acquisitions. These facilities will be reviewed and extended or renewed at a similar amount during the first half of the next financial year.

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 2016 of £2.5m (2015: £2.3m).

The Group maintains a legacy 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 is being carried out as at 30 September 2016 and the results of this exercise will be reported in next year's Annual Report. In Switzerland, local law requires Kubo to provide a contribution based pension for all employees, which are funded by employer and employee contributions. This pension plan is managed for Kubo through a separate multi-employer plan of non-associated Swiss companies which pools the funding risk between participating companies.

The Group continues to make regular cash contributions to the UK scheme at an annual rate of £0.3m, as agreed with the scheme actuary, with the objective of closing the funding deficit over the next six years. However, given the substantial reduction in bond yields at 30 September 2016, compared with those used to value the pension liabilities at the last valuation in 2013, it is very likely that these cash contributions will have to be increased in future years to eliminate the funding deficit. In Switzerland, Kubo's annual cash contribution to the pension scheme is £0.3m (2015: £0.2m).

Both the UK defined benefit scheme and the Kubo contribution scheme are accounted for in accordance with IAS 19 (Revised). At 30 September, the aggregate accounting pension deficit in these two schemes increased by £7.4m to £17.2m because of a further significant reduction of bond yields compared to last year. The gross aggregate pension liability in respect of these two schemes at 30 September 2016 increased by £11.6m to £56.1m which is funded by £38.9m of assets.

Potential impact of Brexit

The outcome of the UK's Brexit vote to leave the European Union is unlikely to materially impact the Group's businesses at an operational level as only 25% of the Group's overall revenues are based in the UK. In addition, these businesses, as well as those based in Continental Europe, are substantially "in country" industrial suppliers of goods with very little sales activity being carried out across country borders.

At a macro-economic level however, the Group's financial results have already been, and are likely to continue to be, impacted by the rapid and substantial depreciation in UK sterling that followed the Brexit vote. This has resulted in gains to the Group's reported revenues, operating profits and net assets from translating the results of the Group's overseas businesses into UK sterling.

In addition, it is also likely that the Group's UK based businesses may be impacted to a lesser degree from substantially weaker UK sterling; this may have an adverse effect on their operating margins because of an increase in the cost of their goods purchased from overseas for sale in the UK.

The Group's UK businesses remain alert to these economic risks and are already taking action to mitigate the impact on their operating margins through a combination of seeking supplier cost reductions, price increases to customers and tight control over operating costs.

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 in the relative ranking of these risks.

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.

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

Strategic risk

Relative movement to prior year

1. Downturn in major markets

Increase

Risk description & assessment

Adverse changes in the major markets in which the businesses operate can have a significant impact on performance. This year, a number of geopolitical and economic factors have caused uncertainty in our principal markets and caused volatility in the performance of key economies. The effects of these changes can be seen in terms of slowing revenue growth, due to reduced or delayed demand for products and services, or margin pressures due to increased competition.

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

- The Group's businesses operate in three differing sectors with different cyclical characteristics and across a number of geographic markets.
- The businesses offer specialised products and services, which are often specific to their application; this offers a degree of protection against customers quickly switching business to achieve a better price.
- A high proportion of the Group's revenues comprises consumable products which are purchased as part of 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 to prior year

2. Loss of key suppliers

No change

Risk description & assessment

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

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

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

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

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 to prior year

3. Supplier strategy change

No change

Risk description & assessment

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

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 to prior year

4. Loss of key customer(s)

No change

Risk description & assessment

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

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

Mitigation

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

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

Operational risk

Relative movement to prior year

5. Product liability

No change

Risk description & assessment

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

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 across 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 to prior year

6. Loss of key personnel

No change

Risk description & assessment

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

The average length of service of the ca.90 senior managers in the Group's 11 years and 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 to prior year

7. Foreign currency risk – Translational exposure

Increase

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 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 2016, ca. 75% of the Group's revenue and adjusted operating profits were earned in currencies other than UK sterling. In comparison to the prior year, the net effect of currency translation was to increase revenue by £13.8m and increase adjusted operating profit by £2.7m. It is estimated that a strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce adjusted operating profit before tax by approximately £4.5m (7%), due to currency translation.

Currency exposures also arise from the net assets of the Group's foreign operations. At 30 September 2016, the Group's non-UK sterling trading capital employed in overseas businesses was £199.0m (2015: £171.4m), which represented 77% of the Group's trading capital employed. It is estimated that a strengthening of UK sterling of 10% against all the non-UK sterling capital employed would reduce shareholders' funds by £18.1m.

Details of average exchange rates used in the translation of overseas earnings and of year-end exchange rates used in the translation of overseas balance sheets, for the principal currencies used by the Group, are shown in note 16 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 to prior year

8. Foreign currency – Transactional exposure

Increase

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 18 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 to prior year

9. Inventory obsolescence

No change

Risk description & assessment

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

The charge against operating profit in respect of old or surplus inventory in the year was £1.1m 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 2016

The responsibility statement below has been prepared in connection with the Group's full Annual Report & Accounts for the year ended 30 September 2016. 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 2015. Iain Henderson and Marie-Louise Clayton retired from the Board on 20 January 2016 and 16 November 2016, respectively.

This responsibility statement was approved by the Board of Directors on 21 November 2016 and is signed on its behalf by:

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director

CONSOLIDATED INCOME STATEMENT
For the year ended 30 September 2016

	Note	2016 £m	2015 £m
REVENUE	3,4	382.6	333.8
Cost of sales		(245.4)	(212.8)
Gross profit		137.2	121.0
Distribution costs		(8.4)	(6.8)
Administration costs		(73.4)	(61.3)
OPERATING PROFIT	3	55.4	52.9
Gain on disposal of assets	13	0.7	-
Financial expense	5	(2.1)	(1.1)
PROFIT BEFORE TAX		54.0	51.8
Tax expense	6	(14.9)	(14.4)
PROFIT FOR THE YEAR		39.1	37.4
Attributable to:			
Shareholders of the Company		38.3	36.7
Minority interests		0.8	0.7
		39.1	37.4
EARNINGS PER SHARE			
Basic and diluted earnings	7	33.9p	32.5p

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)	Note	2016 £m	2015 £m
Operating profit		55.4	52.9
Add: Acquisition related charges	3	10.3	7.4
ADJUSTED OPERATING PROFIT	3,4	65.7	60.3
Deduct: Interest expense	5	(0.8)	(0.7)
ADJUSTED PROFIT BEFORE TAX		64.9	59.6
ADJUSTED EARNINGS PER SHARE	7	41.9p	38.2p

CONSOLIDATED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
For the year ended 30 September 2016

	2016 £m	2015 £m
Profit for the year	39.1	37.4
Items that will not be reclassified to the Consolidated Income Statement		
Actuarial losses in the defined benefit pension schemes	(6.6)	(1.9)
Deferred tax on items that will not be reclassified	1.0	0.4
	(5.6)	(1.5)
Items that may be reclassified to Consolidated Income Statement		
Exchange rate gains/(losses) on foreign currency net investments	31.7	(8.2)
Gains on fair value of cash flow hedges	0.2	1.5
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	(1.5)	(0.3)
Deferred tax on items that may be reclassified	0.3	(0.3)
	30.7	(7.3)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	64.2	28.6
Attributable to:		
Shareholders of the Company	62.7	28.1
Minority interests	1.5	0.5
	64.2	28.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2016

	Share capital £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Share-holders' equity £m	Minority interests £m	Total equity £m
At 1 October 2014	5.7	7.5	0.3	170.9	184.4	2.9	187.3
Total comprehensive income	-	(8.0)	0.9	35.2	28.1	0.5	28.6
Share-based payments	-	-	-	0.5	0.5	-	0.5
Acquisition of businesses	-	-	-	-	-	3.2	3.2
Minority interest put option	-	-	-	(3.2)	(3.2)	-	(3.2)
Minority interests acquired	-	-	-	1.2	1.2	(1.2)	-
Notional purchase of own shares	-	-	-	(1.7)	(1.7)	-	(1.7)
Dividends	-	-	-	(19.7)	(19.7)	(0.2)	(19.9)
At 30 September 2015	5.7	(0.5)	1.2	183.2	189.6	5.2	194.8
Total comprehensive income	-	31.0	(1.0)	32.7	62.7	1.5	64.2
Share-based payments	-	-	-	0.4	0.4	-	0.4
Minority interest acquired	-	-	-	2.0	2.0	(2.0)	-
Tax on items recognised directly in equity	-	-	-	0.1	0.1	-	0.1
Notional purchase of own shares	-	-	-	(0.3)	(0.3)	-	(0.3)
Dividends	-	-	-	(21.0)	(21.0)	(0.4)	(21.4)
AT 30 SEPTEMBER 2016	5.7	30.5	0.2	197.1	233.5	4.3	237.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2016

	Note	2016 £m	2015 £m
NON-CURRENT ASSETS			
Goodwill	10	115.2	89.3
Acquisition intangible assets		54.6	40.2
Other intangible assets		1.0	1.2
Investment	11	0.7	0.7
Property, plant and equipment		23.7	22.8
Deferred tax assets		0.2	0.4
		195.4	154.6
CURRENT ASSETS			
Inventories		66.8	56.6
Trade and other receivables		59.9	51.3
Cash and cash equivalents	9	20.6	23.0
		147.3	130.9
CURRENT LIABILITIES			
Trade and other payables		(60.6)	(45.1)
Current tax liabilities		(2.7)	(2.9)
Other liabilities	14	(1.7)	(2.5)
Borrowings	9	(10.0)	-
		(75.0)	(50.5)
NET CURRENT ASSETS		72.3	80.4
TOTAL ASSETS LESS CURRENT LIABILITIES		267.7	235.0
NON-CURRENT LIABILITIES			
Borrowings	9	-	(20.0)
Retirement benefit obligations		(17.2)	(9.8)
Other liabilities	14	(5.1)	(4.1)
Deferred tax liabilities		(7.6)	(6.3)
NET ASSETS		237.8	194.8
EQUITY			
Share capital		5.7	5.7
Translation reserve		30.5	(0.5)
Hedging reserve		0.2	1.2
Retained earnings		197.1	183.2
TOTAL SHAREHOLDERS' EQUITY		233.5	189.6
Minority interests		4.3	5.2
TOTAL EQUITY		237.8	194.8

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 September 2016

	Note	2016 £m	2015 £m
OPERATING PROFIT		55.4	52.9
Acquisition related charges	8	10.3	7.4
Non-cash items	8	4.6	3.7
Decrease/(increase) in working capital	8	6.3	(1.9)
CASH FLOW FROM OPERATING ACTIVITIES		76.6	62.1
Interest paid		(0.6)	(0.5)
Tax paid		(17.6)	(15.4)
NET CASH FROM OPERATING ACTIVITIES		58.4	46.2
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of businesses (including expenses)	12	(30.1)	(36.6)
Deferred consideration paid	14	(0.7)	(0.6)
Proceeds from sale of business (net of expenses)	13	2.2	-
Purchase of property, plant and equipment		(3.5)	(4.0)
Purchase of other intangible assets		(0.2)	(0.3)
Proceeds from sale of property, plant and equipment	13	2.4	0.1
NET CASH USED IN INVESTING ACTIVITIES		(29.9)	(41.4)
CASH FLOW FROM FINANCING ACTIVITIES			
Acquisition of minority interests	14	(1.9)	(0.6)
Dividends paid to shareholders	15	(21.0)	(19.7)
Dividends paid to minority interests		(0.4)	(0.2)
Purchase of own shares by the Employee Benefit Trust		-	(0.7)
Notional purchase of own shares on exercise of share options		(0.3)	(1.0)
(Repayment)/proceeds of borrowings, net	9	(10.0)	20.0
NET CASH USED IN FINANCING ACTIVITIES		(33.6)	(2.2)
Net (decrease)/increase in cash and cash equivalents		(5.1)	2.6
Cash and cash equivalents at beginning of year		23.0	21.3
Effect of exchange rates on cash and cash equivalents		2.7	(0.9)
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	20.6	23.0

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)			2016 £m	2015 £m
Net (decrease)/increase in cash and cash equivalents			(5.1)	2.6
Add:	Dividends paid to shareholders	15	21.0	19.7
	Dividends paid to minority interests		0.4	0.2
	Acquisition of businesses (including expenses)	12	30.1	36.6
	Acquisition of minority interests	14	1.9	0.6
	Deferred consideration paid	14	0.7	0.6
	Repayment/(proceeds) of borrowings, net	9	10.0	(20.0)
FREE CASH FLOW			59.0	40.3
Cash and cash equivalents			20.6	23.0
Borrowings			(10.0)	(20.0)
NET CASH		9	10.6	3.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

1. GENERAL INFORMATION

Diploma PLC is a public limited company registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 12 Charterhouse Square, London, EC1M 6AX. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as “the Group”) and were authorised by the Directors for publication on 21 November 2016.
These statements are presented in UK sterling, with all values rounded to the nearest one hundred thousand, except where otherwise indicated.

The consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as adopted by the European Union and in accordance with the Companies Act 2006, as applicable to companies reporting under IFRS. The accounting policies have been consistently applied in 2016 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 2016.

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 2016 and 2015. Statutory financial statements for the year ended 30 September 2015 have been delivered to the Registrar of Companies and are available on the website at www.diplomaplc.com The statutory financial statements for the year ended 30 September 2016, which were approved by the Directors on 21 November 2016, will be sent to shareholders on 8 December 2016 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 2016 and 2015. 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 18 January 2017 in Brewers Hall, Aldermanbury Square, London, EC2V 7HR. The Notice of Meeting will be sent out in a separate Circular to shareholders.

2. ALTERNATIVE PERFORMANCE MEASURES

The Group uses a number of alternative (non-Generally Accepted Accounting Practice (“non-GAAP”)) performance measures which are not defined within IFRS. The Directors use these measures 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 expenses (but before fair value remeasurements under IAS 39 in respect of future purchases of minority interests) and before tax. The Directors believe that adjusted profit before tax is an important measure of the underlying performance of the Group.

2.3 Adjusted earnings per share

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

2.4 Free cash flow

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

2.5 Trading capital employed and ROATCE

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

3. BUSINESS SECTOR ANALYSIS

The Chief Operating Decision Maker (“CODM”) for the purposes of IFRS 8 is the Chief Executive. The financial performance of the segments is reported to the CODM on a monthly basis and this information is used to allocate resources on an appropriate basis.

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

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

	Life Sciences		Seals		Controls		Group	
	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue								
- existing businesses	109.9	103.1	159.9	139.6	96.5	91.1	366.3	333.8
- acquisitions	-	-	6.7	-	9.6	-	16.3	-
Revenue	109.9	103.1	166.6	139.6	106.1	91.1	382.6	333.8
Adjusted operating profit								
- existing businesses	19.6	21.0	27.5	24.8	16.2	14.5	63.3	60.3
- acquisitions	-	-	0.7	-	1.7	-	2.4	-
Adjusted operating profit	19.6	21.0	28.2	24.8	17.9	14.5	65.7	60.3
Acquisition related charges	(2.9)	(3.1)	(5.0)	(3.6)	(2.4)	(0.7)	(10.3)	(7.4)
OPERATING PROFIT	16.7	17.9	23.2	21.2	15.5	13.8	55.4	52.9

Acquisition related charges of £10.3m (2015: £7.4m) comprises £9.3m (2015: £6.9m) of amortisation of acquisition intangible assets, £1.2m of acquisition expenses (2015: £0.5m) and a credit of £0.2m relating to adjustments to deferred consideration (2015: £Nil).

3. BUSINESS SECTOR ANALYSIS (continued)

	Life Sciences		Seals		Controls		Group	
	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m
Operating assets	35.1	31.4	70.3	60.0	44.4	36.0	149.8	127.4
Investment	-	-	0.7	0.7	-	-	0.7	0.7
Goodwill	52.8	44.9	39.1	29.6	23.3	14.8	115.2	89.3
Acquisition intangible assets	10.6	13.0	30.4	25.4	13.6	1.8	54.6	40.2
	98.5	89.3	140.5	115.7	81.3	52.6	320.3	257.6
Unallocated assets:								
– Deferred tax assets							0.2	0.4
– Cash and cash equivalents							20.6	23.0
– Corporate assets							1.6	4.5
TOTAL ASSETS	98.5	89.3	140.5	115.7	81.3	52.6	342.7	285.5
Operating liabilities	(17.9)	(14.7)	(22.9)	(16.2)	(18.8)	(13.5)	(59.6)	(44.4)
Unallocated liabilities:								
– Deferred tax liabilities							(7.6)	(6.3)
– Retirement benefit obligations							(17.2)	(9.8)
– Acquisition liabilities							(6.8)	(6.6)
– Corporate liabilities							(3.7)	(3.6)
– Borrowings							(10.0)	(20.0)
TOTAL LIABILITIES	(17.9)	(14.7)	(22.9)	(16.2)	(18.8)	(13.5)	(104.9)	(90.7)
NET ASSETS	80.6	74.6	117.6	99.5	62.5	39.1	237.8	194.8
OTHER SECTOR INFORMATION								
Capital expenditure	1.9	2.5	1.4	1.5	0.4	0.3	3.7	4.3
Depreciation and amortisation	2.0	1.7	1.9	1.3	0.6	0.5	4.5	3.5

Alternative Performance Measures	Life Sciences		Seals		Controls		Group	
(Note 2)	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m
NET ASSETS	80.6	74.6	117.6	99.5	62.5	39.1	237.8	194.8
Add/(deduct):								
- Deferred tax, net							7.4	5.9
- Retirement benefit obligations							17.2	9.8
- Acquisition liabilities							6.8	6.6
- Net cash funds							(10.6)	(3.0)
REPORTED TRADING CAPITAL EMPLOYED							258.6	214.1
- Historic goodwill and acquisition related charges, net of deferred tax	28.0	25.0	22.7	20.2	8.5	8.4	59.2	53.6
ADJUSTED TRADING CAPITAL EMPLOYED	108.6	99.6	140.3	119.7	71.0	47.5	317.8	267.7
ROATCE[1]	17.7%	21.1%	20.1%	23.7%	28.9%	30.5%	21.1%	23.9%

[1]ROATCE is calculated after adjusting for the timing of acquisitions and disposals completed during the year.

4. GEOGRAPHIC SECTOR ANALYSIS BY ORIGIN

	Revenue		Adjusted operating profit		Non-current assets[1]		Trading capital employed		Capital expenditure	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
United Kingdom	97.4	87.7	16.1	14.5	42.3	25.2	59.6	42.7	0.5	0.4
Rest of Europe[2]	105.6	77.1	15.6	11.7	73.8	57.1	91.8	71.6	1.2	0.5
North America[3]	179.6	169.0	34.0	34.1	78.4	71.2	107.2	99.8	2.0	3.4
	382.6	333.8	65.7	60.3	194.5	153.5	258.6	214.1	3.7	4.3

[1] Non-current assets exclude the investment and deferred tax assets.
[2] Rest of Europe includes the Australian Seals businesses.
[3] North America includes the Australian Healthcare businesses.

5. FINANCIAL EXPENSE

	2016 £m	2015 £m
Interest expense and similar charges		
- bank facility and commitment fees	(0.2)	(0.2)
- interest payable on bank and other borrowings	(0.4)	(0.3)
- notional interest expense on the defined benefit pension scheme	(0.2)	(0.2)
Interest expense and similar charges	(0.8)	(0.7)
- fair value remeasurement of put options (note 14)	(1.3)	(0.4)
FINANCIAL EXPENSE	(2.1)	(1.1)

The fair value remeasurement of £1.3m (2015: £0.4m) comprises £0.5m (2015: £0.5m) which relates to an unwinding of the discount on the liability for future purchases of minority interests and a movement in the fair value of the put options of £0.8m debit (2015: £0.1m credit).

6. TAX EXPENSE

	2016 £m	2015 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
- UK corporation tax	2.9	2.6
- Overseas tax	13.7	12.5
	16.6	15.1
Adjustments in respect of prior year:		
- UK corporation tax	(0.2)	(0.1)
- Overseas tax	(0.2)	0.4
Total current tax	16.2	15.4
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
- United Kingdom	(1.6)	(1.0)
- Overseas	0.3	-
Total deferred tax	(1.3)	(1.0)
TOTAL TAX ON PROFIT FOR THE YEAR	14.9	14.4

The gain on disposal of assets during the year included a net credit of £0.3m, as described in note 13. This comprised a £0.5m deferred tax credit that was partially offset by a £0.2m current tax charge.

Factors affecting the tax charge for the year:
The difference between the total tax charge calculated by applying the standard rate of UK corporation tax of 20.0% to the profit before tax of £54.0m and the amount set out above is as follows:

	2016 £m	2015 £m
Profit before tax	54.0	51.8
Tax on profit at UK effective corporation tax rate of 20.0% (2015: 20.5%)	10.8	10.6
Effects of:		
– change in UK tax rates	(0.1)	-
– higher tax rates on overseas earnings	4.1	3.7
– adjustments to tax charge in respect of previous years	(0.4)	0.3
– other permanent differences	0.5	(0.2)
TOTAL TAX ON PROFIT FOR THE YEAR	14.9	14.4

The Group earns its profits in the UK and overseas. The UK corporation tax rate was unchanged at 20.0%; as the Group prepares its consolidated financial statements for the year to 30 September, the effective tax rate for UK corporation tax in respect of the year ended 30 September 2016 was also 20.0% (2015: 20.5%) and this rate has been used for tax on profit in the above reconciliation. The Group's net overseas tax rate is higher than that in the UK, primarily because the profits earned in the US are taxed at rates of up to ca.38%.

The UK deferred tax assets and liabilities at 30 September 2016 have been calculated based on the future UK corporation tax rate of 17.0%, substantively enacted at 30 September 2016.

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 113,058,835 (2015: 113,007,084) and the profit for the year attributable to shareholders of £38.3m (2015: £36.7m). There were no potentially dilutive shares.

Adjusted earnings per share

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

	2016 pence per share	2015 pence per share	2016 £m	2015 £m
Profit before tax			54.0	51.8
Tax expense			(14.9)	(14.4)
Minority interests			(0.8)	(0.7)
Earnings for the year attributable to shareholders of the Company	33.9	32.5	38.3	36.7
Acquisition related charges	9.1	6.5	10.3	7.4
Fair value remeasurement of put options	1.1	0.4	1.3	0.4
Gain on disposal of assets	(0.6)	-	(0.7)	-
Tax effects on acquisition related charges and fair value remeasurements	(1.6)	(1.2)	(1.8)	(1.3)
ADJUSTED EARNINGS	41.9	38.2	47.4	43.2

8. RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES

	2016 £m	2016 £m	2015 £m	2015 £m
Operating profit		55.4		52.9
Acquisition related charges		10.3		7.4
Adjusted operating profit		65.7		60.3
Depreciation or amortisation of tangible and other intangible assets	4.5		3.5	
Share-based payments expense	0.4		0.5	
Cash paid into defined benefit schemes	(0.3)		(0.3)	
Non-cash items		4.6		3.7
Operating cash flow before changes in working capital		70.3		64.0
Increase in inventories	(1.3)		-	
(Increase)/decrease in trade and other receivables	(0.3)		0.2	
Increase/(decrease) in trade and other payables	7.9		(2.1)	
Decrease/(increase) in working capital		6.3		(1.9)
Cash flow from operating activities, before acquisition expenses		76.6		62.1

9. NET CASH

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

	2016 £m	2015 £m
Net (decrease)/increase in cash and cash equivalents	(5.1)	2.6
Decrease/(increase) in borrowings	10.0	(20.0)
	4.9	(17.4)
Effect of exchange rates	2.7	(0.9)
Movement in net cash	7.6	(18.3)
Net cash at beginning of year	3.0	21.3
NET CASH AT END OF YEAR	10.6	3.0
Comprising:		
Cash and cash equivalents	20.6	23.0
Borrowings	(10.0)	(20.0)
NET CASH AT 30 SEPTEMBER	10.6	3.0

The Group has a committed multi-currency revolving facility of £50m (2015: £40m) which expires on 23 June 2017. On 7 March 2016, the Group exercised an accordion option to increase the committed bank facility from £40m to a maximum facility of £50m. At 30 September 2016, the Group had total borrowings under this facility of £10.0m (2015: £20.0m). Interest on this facility is payable between 120 and 170bps over LIBOR, depending on the ratio of net debt to EBITDA. The Group will review its bank facilities during the next financial year.

10. GOODWILL

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 1 October 2014	44.2	21.0	15.0	80.2
Acquisitions	5.6	8.1	-	13.7
Adjustment to acquisitions in prior year	-	0.1	-	0.1
Exchange adjustments	(4.9)	0.4	(0.2)	(4.7)
At 30 September 2015	44.9	29.6	14.8	89.3
Acquisitions (note 12)	-	4.0	7.8	11.8
Exchange adjustments	7.9	5.5	0.7	14.1
AT 30 SEPTEMBER 2016	52.8	39.1	23.3	115.2

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

The key assumptions used to prepare the cash flow forecasts relate to gross margins, revenue growth rates and the discount rate. The gross margins are assumed to remain sustainable, which is supported by historical experience; revenue growth rates generally approximate to average rates for the markets in which the business operates, unless there are particular factors relevant to a business, such as start-ups. The annual growth rates used in the cash flow forecasts for the next five years represent the budgeted rates for 2017 and thereafter, average growth rates for each Sector; these annual growth rates then reduce to 2% over the longer term.

10. GOODWILL (continued)

The cash flow forecasts are discounted to determine a current valuation using a single market derived pre-tax discount rate of ca.11% (2015: 12%). This single rate is based on the characteristics of lower risk, non-technically driven, distribution businesses operating generally in well developed markets and geographies and with robust capital structures. As these features are consistent between each of the Group's Sectors the Board considers that it is more appropriate to use a single discount rate applied to each Sector's cash flow forecasts.

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

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

11. INVESTMENT

	2016 £m	2015 £m
Investment	0.7	0.7

The Group holds a 10% interest in the share capital of Kunshan J Royal Precision Products Inc. ("JRPP"), a supplier to J Royal. The Group has no involvement in the day-to-day operations or management of JRPP. At 30 September 2016, there was no material difference between the book value of this investment and its fair value.

12. ACQUISITION OF BUSINESSES

On 12 October 2015, the Group completed the acquisition of 100% of West Coast Industrial Supplies Pty Limited based in Perth, Australia and its affiliate company, West Coast Industrial Supplies New Caledonia SAS based near Noumea in New Caledonia (together "WCIS") for an aggregate maximum consideration of £9.8m (A$20.5m).

The cash paid on acquisition was £7.6m (A$15.8m), after adjustments to net assets of £1.2m (A$2.7m) and including net debt acquired of £0.4m (A$0.8m), but before acquisition expenses of £0.4m (A$0.8m). Maximum deferred consideration of up to £1.0m (A$2.0m) is payable based both on the performance of WCIS during the year ended 30 September 2016 and on the renewal of specific customer contracts.

On 24 February 2016, the Group acquired 100% of Ascome SARL, based in Paris, France, for total consideration of £0.7m (€0.8m), including cash acquired of £0.3m (€0.4m); £0.6m (€0.7) was paid on completion and £0.1m will be paid in 2017.

On 8 March 2016, the Group acquired 100% of Cablecraft Limited based in Houghton-Regis, England, together with its trading subsidiaries Birch Valley Plastics Limited and Krempfast Limited (together "Cablecraft") for initial consideration of £27.2m, which included the return of £6.2m of surplus cash and was before acquisition expenses of £0.7m. A further £0.1m was paid based on the final net assets at completion. Maximum deferred consideration of up to £5.0m is payable based on the performance of Cablecraft for the 12 months ended 31 March 2017.

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

	WCIS		Cablecraft		Ascome		Total	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Acquisition intangible assets	-	5.2	-	13.0	-	0.2	-	18.4
Deferred tax	0.3	(1.3)	-	(2.3)	-	(0.1)	0.3	(3.7)
Property, plant and equipment	0.5	0.5	0.4	0.4	-	-	0.9	0.9
Inventories	1.6	0.5	2.1	1.7	0.1	0.1	3.8	2.3
Trade and other receivables	1.8	1.8	2.8	2.8	0.2	0.2	4.8	4.8
Trade and other payables	(2.2)	(2.2)	(1.7)	(1.7)	(0.1)	(0.1)	(4.0)	(4.0)
Net assets acquired	2.0	4.5	3.6	13.9	0.2	0.3	5.8	18.7
Goodwill	-	4.0	-	7.7	-	0.1	-	11.8
	2.0	8.5	3.6	21.6	0.2	0.4	5.8	30.5
Cash paid		7.6		27.3		0.6		35.5
Debt acquired		0.6		-		-		0.6
Cash acquired		(0.2)		(6.7)		(0.3)		(7.2)
Expenses of acquisition		0.4		0.7		0.1		1.2
Net cash paid, after acquisition expenses		8.4		21.3		0.4		30.1
Deferred consideration payable		0.5		1.0		0.1		1.6
Less: Expenses of acquisition		(0.4)		(0.7)		(0.1)		(1.2)
Total consideration		8.5		21.6		0.4		30.5

Goodwill of £11.8m recognised on these acquisitions represents the amount paid for future sales growth from both new customers and new products, operating cost synergies and employee know-how.

From the date of acquisition to 30 September 2016, the newly acquired WCIS business contributed £6.7m to revenue and £0.7m to adjusted operating profit and the newly acquired Cablecraft business contributed £9.2m to revenue and £1.7m to adjusted operating profit and the newly acquired Ascome business contributed £0.4m to revenue and had a negligible contribution to adjusted operating profit. If these businesses had been acquired at the beginning of the financial year, they would in aggregate have contributed on a pro-rata basis £23.2m to revenue and £3.6m to adjusted operating profit. However these amounts should not be viewed as indicative of the results of these businesses that would have occurred, if these acquisitions had been completed at the beginning of the year.

13. DISPOSAL OF ASSETS

	2016 £m
Gain on disposal of business	0.3
Gain on disposal of properties	0.4
Gain on disposals (net of tax)	0.7

Gain on disposal of business

On 26 September 2016, Vantage Inc. a business in the Diploma Healthcare Group sold its endoscope reprocessing business assets for cash consideration of £2.8m (C$5.3m); £2.2m net of expenses of sale. Vantage Inc. remains a continuing operation within the Diploma Healthcare Group.

The gain has been accounted for as follows:

	2016 £m
Consideration:	
Cash consideration, net of expenses of sale	2.2
Net assets disposed:	
Intangible assets	(1.4)
Property, plant and equipment	(0.6)
Current assets	(1.5)
Current liabilities	1.4
Gain on disposal before tax	0.1
Tax credit on disposal of business	0.2
Gain on disposal of business from continuing operations	0.3

Gain on disposal of properties

In March 2016, the Group sold freehold properties with a net book value of £2.0m for £2.3m, giving rise to a gain before tax of £0.3m. The tax on this disposal was a credit of £0.1m resulting in a total gain of £0.4m.

A further £0.1m of cash proceeds were received on the disposal at net book value of operational tangible assets in the normal course of business.

14. OTHER LIABILITIES

	2016 £m	2015 £m
Future purchases of minority interests	5.1	5.7
Deferred consideration	1.7	0.9
	6.8	6.6
Analysed as:		
Due within one year	1.7	2.5
Due after one year	5.1	4.1

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

	2016 £m	2015 £m
At 1 October	5.7	3.5
Acquisition of minority interests on exercise of option	(1.9)	(1.4)
Put options entered into during the year	-	3.2
Unwinding of discount	0.5	0.5
Fair value remeasurements	0.8	(0.1)
AT 30 SEPTEMBER	5.1	5.7

14. OTHER LIABILITIES (continued)

At 30 September 2016, the Group retained put options to acquire minority interests in TPD, Kentek and M Seals. On 14 July 2016 and following the exercise of a put option, the Group acquired 10% minority interest outstanding in TPD for total consideration of £1.9m (€2.3m).

At 30 September 2016, the estimate of the financial liability to acquire the outstanding minority shareholdings was reassessed by the Directors, based on their current estimate of the future performance of these businesses and to reflect foreign exchange rates at 30 September 2016.

This led to a remeasurement of the fair value of these put options and the liability was increased by £0.8m (2015: reduced by £0.1m) related to foreign exchange and a £0.5m (2015: £0.5m) charge from unwinding the discount on the liability. In aggregate £1.3m (2015: £0.4m) has been charged to the Consolidated Income Statement.

The put options to acquire the minority interest of 10% held in TPD are exercisable in November 2017 and November 2019; the put option to acquire the minority interest of 10% held in M Seals and the 10% held in Kentek are exercisable in October 2018.

Deferred consideration comprises the following:

	2016 £m	2015 £m
Kentek	-	0.8
HPS	-	0.1
WCIS	0.6	-
Cablecraft	1.0	-
Ascome	0.1	-
AT 30 SEPTEMBER	1.7	0.9

The amounts outstanding at 30 September 2016 are expected to be paid within the next twelve months and will largely be based on the performance of these businesses in the period following their acquisition by the Group.

During the year, outstanding deferred consideration of £0.6m (€0.8m) was paid to the vendor of Kentek relating to the purchase of this minority interest last year. In addition, £0.1m (US$0.2m) was paid to the vendor of HPS in respect of the performance of the business in the year ended 30 September 2015. The balance of £0.2m was not required and has been deducted from the acquisition related charges.

15. DIVIDENDS

	2016 pence per share	2015 pence per share	2016 £m	2015 £m
Interim dividend, paid in June	6.2	5.8	7.0	6.6
Final dividend of the prior year, paid in January	12.4	11.6	14.0	13.1
	18.6	17.4	21.0	19.7

The Directors have proposed a final dividend in respect of the current year of 13.8p per share (2015: 12.4p) which will be paid on 25 January 2017, subject to approval of shareholders at the Annual General Meeting on 18 January 2017. The total dividend for the current year, subject to approval of the final dividend, will be 20.0p per share (2015: 18.2p).

16. EXCHANGE RATES

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

	Average		Closing	
	2016	2015	2016	2015
US dollar (US$)	1.41	1.54	1.30	1.51
Canadian dollar (C$)	1.87	1.91	1.71	2.03
Euro (€)	1.28	1.35	1.16	1.36
Swiss franc (CHF)	1.40	1.48	1.26	1.48
Australian dollar (A$)	1.92	1.99	1.70	2.16