NEWSRELEASE

DIPLOMA PLC

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FOR IMMEDIATE RELEASE

19 November 2018

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2018

"Strong Results with Double-Digit Earnings Growth"

	Audited 2018 £m	Audited 2017 £m	
Revenue	485.1	451.9	+7%
Adjusted operating profit[1]	84.9	78.2	+9%
Adjusted operating margin[1]	17.5%	17.3%	+20bps
Adjusted profit before tax[1],[2]	84.8	77.5	+9%
Statutory operating profit	73.2	68.5	+7%
Statutory profit before tax	72.7	66.8	+9%
Statutory profit for the year	54.4	48.2	+13%
Free cash flow[3]	60.5	55.7	+9%
	Pence	Pence	
Adjusted earnings per share[1],[2]	56.4	49.8	+13%
Basic earnings per share	47.5	42.0	+13%
Total dividend per share	25.5	23.0	+11%

(1) Before acquisition related charges and Chief Executive Officer transition costs
(2) Before fair value remeasurements
(3) Before cash payments on acquisitions and dividends

Financial Highlights

- Revenue and adjusted operating profit increased by 7% and 9%, respectively.
- Underlying revenues increased by 7%; 3% increase in revenues from businesses acquired (net of a small disposal), offset by 3% currency headwind.
- Adjusted operating margins improved by 20bps to 17.5%, reflecting benefit of operational leverage from growth in revenues.
- Adjusted profit before tax increased by 9% to £84.8m; adjusted EPS increased by 13% to 56.4p, reflecting benefit from a reduction in US Federal corporate income tax rate.
- Robust free cash flow of £60.5m, including £4.0m realised on sale of business; strong balance sheet with cash funds of £36.0m at end of September.
- Total dividend increased by 11% to 25.5p per share reflecting strong financial position and confidence in Group's prospects.

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

Operational Highlights

- In Life Sciences underlying revenues increased by 5%. Healthcare businesses benefited from strong consumable revenues and new premium Surgical and Endoscopy products; Environmental businesses had a mixed year, with stronger revenues in Germany offset by reduced UK revenues.

- In Seals, underlying revenues increased by 10%. Aftermarket and Industrial OEM businesses in North America benefited from buoyant US industrial economy; International Seals businesses reported solid growth in second half of year led by a good performance in Europe.

- In Controls, underlying revenues increased by 5%. The Interconnect and Specialty Fasteners businesses increased revenues helped by stronger industrial markets and success in broadening their customer base; weaker revenues in Fluid Controls were principally due to the absence of a large one-off project.

- Acquisition expenditure was £20.4m with £16.9m invested in the acquisition of FS Cables, taking the Group's expenditure on value-enhancing businesses over the past five years to ca. £128m; the Group's return on adjusted trading capital ("ROATCE") has improved to 24.5%, comfortably exceeding our 20% target.

Commenting on the results for the year, John Nicholas, Diploma's Executive Chairman said:

"Diploma's trading performance in 2018 was, once again, very strong. The Group delivered another year of double-digit growth in adjusted earnings per share and generated free cash flow of over £60m. The results demonstrate the resilience of the Group's businesses and the consistent delivery against the Group's strategy which has delivered compound double-digit growth in adjusted earnings per share over the past 10 years.

Despite the global macro-economic uncertainty, the Board remains confident that the Group will continue to make further progress in the coming year from a combination of steady "GDP plus" underlying growth and from the Group's proven and value-enhancing 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/investors/financial-presentations/

For further information please contact:

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Notes:

- Diploma PLC uses alternative performance measures as key financial indicators to assess the underlying performance of the Group. These include adjusted operating profit, adjusted profit before tax, adjusted earnings per share, free cash flow and ROATCE. All references in this Preliminary Announcement ("Announcement") to "underlying" revenues or operating profits refer to reported results on a constant currency basis and before any contribution from acquired or disposed businesses. The narrative in this Announcement is based on these alternative measures and an explanation is set out in notes 2 and 3 to the consolidated financial statements in this Announcement.

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

NOTE TO EDITORS:

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

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

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

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

The Group employs ca. 1,800 employees and its principal operating businesses are located in the UK, Northern Europe, North America and Australia.

Over the last ten years, the Group has grown adjusted earnings per share at an average of ca. 13% p.a. through a combination of underlying growth and acquisitions. Diploma is a member of the FTSE 250 with a market capitalisation of ca. £1.6bn.

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

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PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS
FOR YEAR ENDED 30 SEPTEMBER 2018

EXECUTIVE CHAIRMAN'S STATEMENT

Diploma's trading performance in 2018 was, once again, very strong. The Group delivered another year of double-digit growth in adjusted earnings per share and generated free cash flow of over £60m. The results demonstrate the resilience of the Group's businesses and the consistent delivery against the Group's strategy that have allowed Diploma to build a long track record of strong financial performance despite the vagaries of the macroeconomic environment during any period.

During the year the Board appointed a new Chief Executive Officer ("CEO") to succeed Bruce Thompson who retired from the Board after leading the Group for over 20 years. However, in August it was announced that Richard Ingram stepped down from his role as CEO and that I had agreed to take over as interim Executive Chairman until a new CEO is appointed. This process is underway and the Board is confident that we will find the right CEO to lead the Group to continued success. Over the course of this year, I have been consistently impressed by the capability and commitment of the Group's senior management team and I am grateful for their continued support and hard work during this period. My particular thanks are extended to our Group Finance Director, Nigel Lingwood, for the strength and leadership he has demonstrated throughout the year.

The Board has reviewed and reconfirmed its support for the Group's existing strategy, that we believe continues to have excellent potential to create shareholder value in the years ahead. In addition to the underlying growth achieved this year, two acquisitions were completed during the year and a further small acquisition was also completed shortly after the year end.

Results

Group revenues increased in 2018 by 7% to £485.1m (2017: £451.9m), despite a currency headwind of 3% from translating the results of the overseas businesses, following a small appreciation in UK sterling this year. After adjusting for the contribution from acquisitions completed both this year and last year, net of a small disposal this year and for these currency effects on translation, Group revenues also increased by 7% on an underlying basis. The Seals businesses delivered strong underlying revenue growth of 10% and both the Life Sciences and Controls businesses reported a 5% growth in underlying revenues.

Adjusted operating profit increased by 9% to £84.9m (2017: £78.2m) reflecting the strong growth in revenues and a modest increase of 20bps in adjusted operating margins to 17.5% (2017: 17.3%). Adjusted profit before tax also increased by 9% to £84.8m (2017: £77.5m) and adjusted earnings per share ("EPS") increased by 13% to 56.4p (2017: 49.8p), reflecting the benefit from the reduction in the US Federal corporate income tax rate during the year.

On a statutory basis, the Group's operating profit was 7% ahead of last year at £73.2m (2017: £68.5m) after £9.6m (2017: £9.7m) of acquisition related charges, largely comprising amortisation of acquired intangible assets and one-off charges of £2.1m with respect to the CEO change in the year. Statutory profit before tax increased by 9% to £72.7m (2017: £66.8m) and statutory EPS was 13% up on last year at 47.5p (2017: 42.0p).

The Group's free cash flow remained robust at £60.5m (2017: £55.7m), which included £4.0m from the sale of a small non-core US gasket business. The outflow of cash to support working capital increased again this year by £5.1m (2017: £4.0m) reflecting the much stronger trading environment across the Group. Capital expenditure increased this year to £6.6m (2017: £3.3m) with investment focused on new facilities and IT infrastructure and a large investment by the Healthcare businesses in field equipment in support of customer contracts.

As indicated in last year's Annual Report, the environment to complete acquisitions continued to be challenging as vendors postponed their exit plans in the face of the continuing favourable macroeconomic conditions. The Group invested £20.4m (2017: £20.1m) in acquisitions and there were tentative signs towards the end of the year that this environment was easing. The pipeline of acquisition opportunities remains healthy and we are confident that good quality businesses in our acquisition pipeline will be brought to market by their vendors.

The Group's balance sheet remains robust with cash funds at 30 September 2018 of £36.0m (2017: £22.3m), after investing £20.4m in acquisitions and making distributions to shareholders of £26.8m (2017: £23.5m). The Group also has unutilised committed bank facilities of £30m with an accordion option to extend these facilities up to £60m.

Dividends
The combination of strong results and free cash flow, supported by a robust balance sheet has led the Board to recommend an increase in the final dividend of 11% to 17.8p per share (2017: 16.0p). Subject to shareholder approval at the Annual General Meeting ("AGM"), this dividend will be paid on 23 January 2019 to shareholders on the register at 30 November 2018.

The total dividend per share for the year will be 25.5p (2017: 23.0p), which represents an 11% increase on 2017, with the level of dividend cover remaining unchanged at 2.2 times on an adjusted EPS basis.

Governance
During the year, we completed an external evaluation of the Board. The results of the review were discussed by the Board and an action plan to implement suggested improvements has been prepared. The review included an in-depth analysis of the CEO recruitment process with specific lessons to learn for the new search. The Nomination and Remuneration Committees have been focused during the latter part of the year on the leadership change and search for a new CEO. The Audit Committee has overseen the transition of the audit to the new auditor, PricewaterhouseCoopers LLP.

Employees
We continue to foster an entrepreneurial culture that encourages our employees to take responsibility for their own businesses. I would like to record my thanks to all our employees whose hard work and commitment has again been a driving force behind the Group's performance and the achievement of another year of strong financial results.

Outlook
Diploma has a strong and resilient business model with a broad geographic spread of businesses supported by a robust balance sheet and consistently strong free cash flow. This model has delivered another strong result this year with double-digit growth in earnings per share, benefiting from favourable trading conditions in most of its major markets.

Despite the global macro-economic uncertainty, the Board remains confident that the Group will continue to make further progress in the coming year from a combination of steady "GDP plus" underlying growth and from the Group's proven acquisition programme.

OUR YEAR IN REVIEW

Financial performance
In 2018, the Group delivered another year of robust growth in revenue and earnings benefiting from strong industrial economies in the US and Europe and from the reduction in the US Federal corporate income tax rate. The Group's reported revenues increased by 7%, with currency headwinds decreasing revenues by 3% and acquisitions, net of a small disposal this year, contributing 3% to revenue growth. On an underlying basis, after adjusting for acquisitions, the disposal and for the currency effects on translation, Group revenues increased by 7%.

The Group's adjusted operating margins improved by 20bps to 17.5%, compared with 17.3% in the prior year and the first half of the current year. Gross margins remained unchanged from last year, despite pressures on supply chains in most Sectors leading to increases in product costs and other margin support costs. These pressures were mitigated during the second half of the year as selective price increases began to take effect and with increased availability of inventory. Adjusted operating costs as a percentage of revenue have reduced by 20bps with improved operating leverage from the increase in revenues and generally tight control of operating costs.

Working capital as a percentage of revenue was managed down through the second half of the year to 15.1%. The Group's free cash flow increased by 9% to £60.5m, reflecting very strong cash generation in the second half of the year and boosted by proceeds of £4.0m from the disposal of a small non-core US business.

Sector performance

In Life Sciences, underlying revenues increased by 5% after adjusting for currency movements and the prior year acquisition of Abacus ALS. The Healthcare businesses benefited from strong diagnostic consumable revenues and the introduction of new premium Surgical and Endoscopy products. The Environmental businesses had a mixed year with stronger revenues in Germany, offset by reduced UK revenues because of delays in placement of orders. Both Environmental businesses continued to benefit from stronger service revenues.

In Seals, underlying revenues increased by 10% after adjusting for currency movements, the prior year acquisitions of PSP and Edco and the disposal of the small non-core Bulldog business this year. In North America, both the Aftermarket and Industrial OEM business benefited from a buoyant US industrial economy. In the International Seals businesses, a strong improvement in industrial activity in the second half of the year provided good growth in European revenues. Solid growth in Australian revenues was more than offset by much weaker trading with a major customer in New Caledonia.

In Controls, underlying revenues increased by 5% after adjusting for currency movements and the acquisitions this year of FS Cables and Coast. The Interconnect revenues benefited from both broadening its customer base deeper into Europe and from stronger industrial markets. The Specialty Fasteners business also increased revenues from broadening its range of customers in the Civil Aerospace sector. The Fluid Controls businesses reported lower revenues reflecting the decision to focus on higher margin business and from the absence of a large one-off project delivered last year.

Acquisitions and disposals

Over the last five years, a total of ca. £128m has been invested in acquisitions and ca. £6m has been realised from divesting businesses.

During 2018, the acquisition spend was £20.4m of which £16.9m was invested in the acquisition of FS Cables, a supplier of specialist cable products to a range of industries and based in St Albans, UK. FS Cables fits well within the Controls Sector alongside Cablecraft, which was acquired in 2016 and provides growth opportunities through cross selling to new and existing customers. The small non-core US business, Bulldog, was sold during 2018 for cash proceeds of £4.0m.

In addition, the Group completed two smaller bolt-on acquisitions in the Controls Sector: Coast, a small specialty fastener distributor based in California, US was acquired in October 2017 and Gremtek, a supplier of own-brand protective sleeving products, based in France was acquired after the year end in October 2018.

Strong Executive management

The Executive Management Committee ("EMC") comprises the Executive Directors along with the Executive managers who are responsible for the major business clusters and key Group functions. The EMC members are a combination of internally developed senior managers and experienced senior managers who have been recruited externally.

The EMC has been strengthened this year with experienced senior management who will take responsibility for overseeing and coordinating additional Group functions, including IT and ERP projects carried out across the Group. A HR senior manager is also being recruited and will join the EMC in the new financial year. The EMC provides the opportunity for members to broaden their perspective of the Group's activities in order to reinforce the key elements of the Group's culture and to identify best practices that are transferable across the Group. The EMC meets quarterly through a combination of full group meetings in London and sub-group meetings held in the major business locations.

During this year, the EMC has demonstrated its strength by providing a significant level of stability and support to the businesses in a period of uncertainty caused by the change in CEO. This has contributed to the strong results reported this year.

SECTOR DEVELOPMENTS

LIFE SCIENCES

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

	2018	2017	
Revenue	£134.7m	£125.9m	+7%
Adjusted operating profit	£23.9m	£23.3m	+3%
Adjusted operating margin	17.7%	18.5%	-80bps
Free cash flow	£17.3m	£17.0m	+2%

- Sector revenue growth of 7%; underlying growth of 5% after adjusting for currency and an acquisition completed last year
- In Canada, DHG underlying revenues increased by 8% with strong consumable revenues from its leading products; the Surgical and Endoscopy products lines at Vantage business reported strong revenues from the introduction of new premium products
- In Australia and New Zealand, underlying revenues increased by 4%; Abacus ALS acquired in April 2017 reported strong growth across its portfolio of products, which more than offset reduced revenues in the Surgical Products business following the acquisition of a key supplier by a large industry player
- TPD revenues were broadly flat in Ireland and the UK with new suppliers and product segments replacing suppliers moving to a direct supply model
- The Environmental businesses reported unchanged underlying revenues with strong revenue growth in Germany, offset by reduced revenues in the UK from delays in order placement

Reported revenues of the Life Sciences Sector businesses increased by 7% to £134.7m (2017: £125.9m). The acquisition of Abacus ALS, acquired in April 2017, incrementally added £6.4m or 5% to Sector revenues, which was partly offset by a headwind of 3% from currency movements on translation of the results from overseas businesses to UK sterling. After adjusting for currency effects and this acquisition, underlying revenues increased by 5%.

Adjusted operating margins reduced by 80bps to 17.7% largely reflecting the investment made during the year developing opportunities for the new endoscopes introduced in Canada. DHG margins were also diluted from a full year contribution, together with one-off integration costs, of the combined diagnostic businesses in Australia and New Zealand and weaker revenues following a loss of a supplier in BGS. In addition, an increase in underlying costs in the Environmental businesses on unchanged revenues led to negative leverage. However gross margins improved reflecting a more favourable mix of revenues in both the Healthcare and Environmental business. Transactional currency pressures on the Healthcare margins remained subdued, but favourable currency hedges helped offset some volatility of the Canadian and Australian dollars relative to the US dollar and Euro during the second half of the year. Adjusted operating profits increased by 3% to £23.9m (2017: £23.3m).

The Life Sciences businesses invested £3.5m (2017: £2.0m) in new capital during the year of which £2.3m (2017: £1.6m) was spent on acquiring field equipment for both new placements in hospitals and laboratories and for loan equipment and demonstration models to support existing placements. The increase in spend on field equipment was largely driven by the launch of a new series of flexible endoscopes, together with the addition of a range of rigid endoscopes under a new supplier agreement. A further £0.6m was invested in completing the refurbishment of the AMT and Vantage office and service facilities in Kitchener and Markham, Canada and on a new facility for a1-CBISS in the UK. The balance of £0.6m was invested in warehouse equipment and on upgrading the IT infrastructure in both businesses. Free cash flow increased marginally to £17.3m (2017: £17.0m), reflecting reduced cash flows into working capital, offset by higher capital investment.

Healthcare

The DHG businesses, which account for 85% of Life Sciences revenues, increased underlying revenues by 6% after adjusting for currency effects and the incremental revenue from the acquisition of Abacus ALS.

In Canada, underlying revenues increased by 8% against the background of continuing budget pressures throughout the Provincial healthcare systems, with Group Procurement Offices ("GPOs") continuing to restructure and amalgamate, both nationally and regionally.

Somagen's core Clinical Diagnostics business delivered an underlying increase of 2% in revenues, with steady growth in consumable and service revenues. Capital sales decreased reflecting the impact of laboratory centralisation and reduced spending after a "catch-up" in procurement last year, following the 2016 hospital spending freeze in some Provinces. Demand for diagnostic testing remained robust, particularly with a combination of strong growth and contract extensions for cancer screening tests and growth from new technology introduced in the areas of Autoimmunity. A long term contract was renewed with a major supplier and an additional supply agreement was gained during the year that will provide opportunities for Somagen in the Microbiology market. Somagen has also secured large Provincial contracts to provide colorectal cancer screening products and services that are expected to ramp up in the next financial year.

AMT and Vantage, the Surgical and Endoscopy businesses in Canada, delivered strong growth in revenues, primarily driven by the successful introduction and rebranding of a premium range of rigid and flexible endoscopes and surgical instrument sets in Vantage. These offer further growth potential in the Urology and Gynaecology segments of the surgical market. The introduction of a new series of endoscopes in early 2018 has also provided Vantage with opportunities to replace existing customer supply contracts in several Provinces. Strong growth was also achieved at AMT in the supply of specialised instruments used in laparoscopic and other minimally invasive surgical procedures. These growth initiatives have diversified the revenue streams across both the core surgical and GI businesses and mitigated the continuing pressures in the electrosurgery and smoke evacuation businesses, where pricing has now stabilised, albeit at lower levels. In October 2018, AMT secured a new five year contract with a large GPO to provide electrosurgical and smoke evacuation products.

In Australia, Diagnostic Solutions has been integrated into Abacus ALS to form Abacus dx, a larger broader-based Clinical Diagnostics, Life Science and Patient Simulation business, supplying to both the public and private pathology laboratories and to research and educational establishments across Australasia. Abacus dx has delivered strong growth in revenues on a like-for-like basis, despite the continuing consolidation of testing within Clinical Diagnostics and expanded professional procurement in the fragmented Life Sciences market. Abacus dx is working closely with key suppliers to position itself strongly in response to the shift towards track based laboratory systems. BGS, the Surgical Products business, reported a reduction in revenues as it struggled with securing sales of new products introduced to replace electrosurgical products from a supplier that had been acquired by a larger industry player with its own channels to market. However strong growth from key suppliers of other Surgical Products helped mitigate some of the shortfall. In smoke evacuation, the implementation of nursing guidelines enforcing smoke evacuation compliance will drive longer term growth, but has also slowed evaluation and decision processes during the year.

The TPD business in Ireland and the UK reported revenues broadly flat in Euro terms, as it managed the transition of a number of suppliers who have moved from specialised distribution to a direct supply model. New suppliers have been secured that will help mitigate this transition, together with solid growth within the Clinical segment supplying clinical chemistry and serology control products. New suppliers and businesses providing agitators and separators used in the NHS Blood and Transplant service continued to diversify the breadth of the portfolio. The Biotechnology and Service segments also delivered good growth from strong capital sales, which reflected management's efforts to forge strong strategic partnerships with their diverse customer base both in Ireland and the UK. TPD is further broadening its service capability beyond diagnostic instrumentation and has established a new Surgical Products division to bring to market the electrosurgical and smoke evacuation products similar to those supplied by AMT and BGS in Canada and Australia, respectively.

Environmental

The a1-group of Environmental businesses in Europe, which account for 15% of Life Sciences revenues, saw revenues increase by 1% in UK sterling terms, but remained unchanged in constant currency terms.

The a1-envirosciences business based in Germany increased revenues by 7% in Euro terms driven by strong demand in Germany for high-end halogen analysers and increased sales of customised containment enclosures. The increasing environmental awareness and in particular, the anticipated regulations on toxic polyfluorinated compounds, found in a range of man-made products, is creating demand for these analysers in R&D and Environmental control. Health & Safety regulations continue to increase demand for customised containment enclosures for the safe weighing of hazardous materials. The business is also targeting investment in service personnel to support the larger installed base and demand from customers for faster response times. In addition, investment is being made in an IT based field service management system to enhance customer service and improve efficiency of its growing service team.

The a1-CBISS business based in the UK reported an 8% decrease in revenues reflecting significant delays during the year in order placement for continuous emissions monitoring systems ("CEMS"). However the opportunities in this sector remain encouraging with new Energy from Waste ("EFW") plants playing an important role in reducing landfill waste. Revenue from service contracts continues to grow as EFW plants supplied over the last 18 months become operational.

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.

	2018	2017	
Revenue	£208.0m	£195.3m	+7%
Adjusted operating profit	£36.0m	£31.9m	+13%
Adjusted operating margin	17.3%	16.3%	+100bps
Free cash flow	£25.9m	£24.9m	+4%

- Sector revenue growth of 7%; underlying growth of 10% after adjusting for currency and the net impact from acquisitions and a disposal completed during the past two years
- In North America, Aftermarket underlying revenues increased by 9% driven by strong markets in the core Hercules business and continued robust growth in the HKX business
- Industrial OEM underlying revenues in North America increased by 13% in a very strong US Industrial market, supported by healthy manufacturing PMI data
- Implementation of a new ERP system in the Industrial OEM businesses in the US, following the establishment of a senior management team last year to manage this cluster of businesses
- International Seals businesses increased underlying revenues by 7% with stronger trading across all businesses in the second half of the year

Reported revenues of the Seals Sector businesses increased by 7% to £208.0m (2017: £195.3m). The acquisitions of PSP and Edco completed in 2017, net of a small disposal this year, contributed £3.3m or 2% to Sector revenues, but this was more than offset by currency movements on translation of the results from overseas businesses to UK sterling, which reduced Sector revenues by 5%. After adjusting for the acquisitions and for currency effects, underlying revenues increased by 10%.

Adjusted operating margins for the Sector increased by 100bps to 17.3% (2017: 16.3%) with stronger revenues providing operating leverage. This more than offset a small reduction in gross margins arising from both a lag in the first half of the year in passing on supplier price increases and increased freight costs from expediting inventories. Adjusted operating profits increased by 13% to £36.0m (2017: £31.9m).

During the year, £2.0m (2017: £1.1m) of capital expenditure was invested in the Seals businesses. This primarily comprised £1.1m on implementing a new single ERP system across the US Industrial OEM businesses and a new ERP system in Kentek. A further £0.9m was spent on upgrading warehouse equipment and facilities and on the general IT infrastructure across the Seals businesses. The free cash flow generated in this Sector increased by £1.0m to £25.9m, with stronger operating cash flow being partly absorbed by higher working capital to support the strong trading environment.

North American Seals

The North American Seals businesses, which account for 60% of Seals revenues, reported revenues up 6% on the prior year. Underlying revenues increased by 11% after adjusting for the strengthening of UK sterling against both the US and Canadian dollar, for the disposal of a small non-core business in June and the bolt-on acquisition of PSP completed last year.

The HFPG Aftermarket businesses increased revenues by 9% on a constant currency basis, driven by strong trading conditions in the core Hercules business in both the US and Canada and continued robust growth in the HKX attachment kit business. There was significant pickup in activity in the Oil & Gas sector and both new Construction and large Infrastructure projects led to increased demand for heavy machinery that required increased servicing and repair. The significant increase in activity has led to extended lead times in the supply chain and robust supplier price increases, which HFPG has sought to mitigate through increased catalogue prices.

In the domestic US market, Hercules revenues increased by 9% with the Repair and Distributor segments growing steadily through the year reflecting higher equipment levels. With seal manufacturers struggling to keep up with demand, Distributors turned to Hercules for their superior service and inventory availability. Hercules continue to add products to their portfolio and broaden the scope of equipment supported to include Aerial-Lifts, Logging, Injection Moulding and Agriculture. Investment was also made to enhance existing sales resources and extend into new territories. New market opportunities include seal kitting services for industrial plants of OEMs. E-commerce continues to deliver strong year-on-year growth and now accounts for 30% of invoices processed and 25% of Hercules US revenues. Enhancements were made to the E-commerce functionality to allow customers to configure custom seals and provide access via mobile applications.

The core Hercules business in the US has also made good progress in developing a major project to invest ca. US$10m in a second warehouse facility to provide capacity to meet the growing demand for a broader range of products, as well as gain greater access to expanded territories in the US. Potential facilities have been identified and work on this project will commence in 2019 with the aim of becoming fully operational in the 2020 financial year.

In Canada, revenues increased by 7% in local currency terms, supported by a robust Construction sector with increased residential housing starts driving growth in the repair market. Non-residential construction also grew with several new mining projects and demand for additional warehouse facilities. Robust industrial markets had a positive impact on revenues from sales to OEM cylinder manufacturers.

In markets outside of North America, Hercules achieved a double-digit increase in revenues from sales in Colombia and Chile and record sales to the Rest of World, including China.

The HKX attachment kit business has continued to benefit from tight availability of OEM excavator equipment. In this environment revenues increased by 13%, with strong demand for Tier 3 machines in Canada (ahead of the Tier 4 mandate on 1 January 2019).

In June 2018, Hercules sold its small Bulldog gasket business at net asset value for cash consideration of £4.0m as it was no longer a core part of the Hercules business.

The HFPG Industrial OEM businesses in North America increased revenues by 13% in a very strong US industrial market, supported by healthy Manufacturing PMI data. The business has a number of large key accounts across a range of specialised industrial applications in industries including Water, Medical, Oil & Gas, Fluid Handling and Food Equipment. Good double-digit growth was achieved in all these accounts through deeper and broader penetration to identify additional value-adding opportunities. The businesses continue to provide high levels of customer service and technical support to service existing projects, while looking for opportunities to deploy higher specification, regulatory-compliant compounds, to target new projects with higher levels of added-value.

A constant challenge during the year was managing supplier price increases against a background of generally annual customer supply agreements, particularly with the larger key accounts. The introduction of US tariffs towards the end of the financial year has initially also led to some pressure on gross margins, as existing inventory works through. Tariff charges are now being passed on to customers in the form of a separate line charge and selling prices will be updated as supply agreements are renewed.

The Industrial OEM Seals businesses now comprise a cluster of businesses led by a single senior management team directing the key functions of Sales, Supply Chain, Technical and Finance, while maintaining the distinct identity of each business. This has provided the opportunity to realign sales resources and consolidate the supply chain and finance functions within one back office. A key and necessary part of this exercise was the implementation of a new ERP system to replace the disparate legacy IT systems in the businesses. The new ERP system, which went live shortly after the year end, will increase operational efficiency and improve business intelligence to allow field sales to focus on higher margin market segments and products. These initiatives will be supported by new branding and through strategic advertising and trade shows.

International Seals

The International Seals businesses, which account for 40% of Seals revenues, reported a 7% increase in UK sterling terms, benefiting from substantially stronger revenues in the second half of the year. After adjusting for currency effects, the impact from the disposal of the Bulldog business on FPE revenues and the acquisition of Edco completed last year, underlying revenues were also up 7%. During the year the International Seals cluster of businesses strengthened management, set up projects to implement new ERP systems in 2019 and shared best practice in developing E-commerce functionality across the businesses.

The FPE Seals and M Seals businesses, with their principal operations in the UK, Scandinavia and the Netherlands, together delivered underlying growth of 6% in revenues on a constant currency basis and after adjustment for the acquisition of Edco and disposal of Bulldog. The FPE Seals business delivered modest underlying revenue growth, despite robust growth in its core UK Aftermarket hydraulic seals and cylinder parts business and a strong improvement in the Oil & Gas market. This was offset by weaker international sales reflecting the absence of a large export order delivered last year. Sales coverage has now been realigned to focus on account management and the existing capacity for the production of machined seals will be utilised to help penetrate the small OEM and Repair businesses outside the hydraulic cylinder market.

M Seals continued to deliver good growth in revenues from its core markets driven by strong customer relationships that have provided a number of major new projects, particularly in Sweden. As with FPE Seals, M Seals has also benefited in the UK from the recovery in the Oil & Gas market with customers expanding activities and providing good growth in revenues. In its first full year with the Group, Edco (now collectively branded M Seals UK) delivered good growth in revenues on a like-for-like basis, with increased sales to key customers.

Kubo, which operates in Switzerland and Austria, increased underlying revenues by 13%, benefiting from strong industrial production driven by increased exports and supported by the depreciation of the Swiss franc. Customers and suppliers reported full order books with production capacity at high levels. Kubo continues to target smaller manufacturing plants focused on Life Sciences, Biotechnology and Microelectronics where Kubo’s specialised products and technical knowledge can add value to the customer. During the year, Kubo gained a large new distribution supply contract representing a pan European manufacturer that will provide further opportunity for growth next year. The market in Austria has also been buoyant and Kubo has continued to increase revenues from existing and new customer contracts.

The Kentek business, with principal operations in Finland and Russia, increased revenues by 1% in Euro terms, despite the significant impact on the region from the EU/US sanctions regime. Revenues generated in Russia, which account for ca. 65% of Kentek revenues, improved strongly in the second half of the year, after a weak first half, supported by stronger global Oil & Gas markets. Kentek has also benefited significantly from expanding its own-brand filter range and from widening its geographical coverage towards eastern Russia. In Finland, revenues increased with sales targeted to support projects in the large Industrial OEM sector.

WCIS has core capabilities in industrial gaskets and mechanical seals used in MRO operations in complex, high specification and arduous conditions. Revenues were negatively impacted this year by cost reduction initiatives in the nickel mining and processing operations of its major customer in New Caledonia. This more than offset strong growth in Australian revenues as new contracts were gained in the Power Generation sector and as Mining activity continued to improve with repairs of customer assets. WCIS continues to broaden its coverage across a wider range of products, market sectors and regional territories.

CONTROLS

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

	2018	2017	
Revenue	£142.4m	£130.7m	+9%
Adjusted operating profit	£25.0m	£23.0m	+9%
Adjusted operating margin	17.6%	17.6%	-
Free cash flow	£19.8m	£18.6m	+6%

- Sector revenue growth of 9%; underlying growth of 5% after adjusting for currency and acquisitions completed this year
- The Interconnect businesses delivered underlying growth of 7%; the FS Cables acquisition brings a range of own-branded specialist wire and cable products
- Clarendon increased underlying revenues by over 8%, with growth driven by broadening its range of customers in Civil Aerospace; US market targeted through the acquisition of Coast
- Fluid Controls revenues reduced by 4% reflecting the decision to focus on higher margin business and the absence of a large one-off project

Reported revenues of the Controls Sector businesses increased by 9% to £142.4m (2017: £130.7m). The acquisitions of Coast, acquired in October 2017 and FS Cables, acquired in August 2018, added £5.1m or 4% to Sector revenues. After adjusting for negligible currency movements on revenues from translation to UK sterling and for these acquisitions, underlying Sector revenues increased by 5%, with activity in the final quarter particularly robust in what is normally a slower summer period.

Adjusted operating margins were unchanged at 17.6% (2017: 17.6%). Gross margins improved overall reflecting a stronger customer mix in Clarendon, the absence in Fluid Controls of a large low margin project last year, together with a focus away from lower margin air conditioning business. In Interconnect, stronger gross margins in the Cablecraft business offset the impact of strategic pricing used selectively by the IS-Group to penetrate new customers within the broader European region. Investment in sales resources to drive growth for Clarendon in the US and to enhance E-commerce at Cablecraft contributed to an increase in operating costs ahead of revenue. Adjusted operating profits increased by 9% to £25.0m (2017: £23.0m).

Capital expenditure in Controls increased to £1.1m (2017: £0.2m), with £0.7m invested in the IS-Sommer freehold facility to expand the existing warehouse and office capacity. A further £0.4m was invested in small refurbishment projects at both Cablecraft and Clarendon's newly acquired US facility and in product testing equipment in the UK businesses. Free cash flow increased by 6% to £19.8m (2017: £18.6m) reflecting stronger trading and the additional contribution from the acquisitions, partly offset by higher capital expenditure.

Interconnect

The Interconnect businesses account for 59% of Controls revenues and reported an increase in revenues of 9% in UK sterling terms. After adjusting for the FS Cables acquisition and for currency effects, underlying revenues increased by 7% with good growth in the IS-Group and Cablecraft, more than offsetting the absence of major project activity in Filcon.

The IS-Group's UK businesses reported a 18% increase in revenues reflecting good success achieved in broadening its customer base across the broader European region, through directly targeting cable harness houses, as well as supplying the traditional network of European subdistributors. In Aerospace and Defence, the UK businesses reported a strong increase in revenues supported by high value repeat orders and new project wins to expand market share. New projects included the design-in of manufactured cables into the KC-46 refuelling tanker, as well as harness components used on the “Crowsnest” Merlin helicopter and the Ajax armoured fighting vehicle. An active Industrial sector also contributed to a strong growth in revenues from a broad range of end-users. In Energy, the recovery in the oil price has led to renewed activity with demand for products going into subsea applications and Tier 4 engines used in the global fracking and mining industries. In Motorsport, revenues were flat on the prior year with a much quieter year for development in Formula 1, WRC and the America’s Cup, but were partly compensated by additional activity in Formula E.

The IS-Group’s German business, IS-Sommer, delivered 12% growth in revenues with particularly strong performances in the Aerospace, Defence and Industrial markets. A new distribution agreement was concluded during the year with a leading manufacturer of specialist aviation cables, which boosted Aerospace growth. Defence revenues benefited from supplying into new programmes to refit and refurbish Leopard II tanks and Boxer armoured vehicles, as well as the ongoing programme to produce Boxer armoured vehicles for the Lithuanian military. Industrial revenues benefited from the strength of the export led German economy. Medical revenues continued to benefit from design-in efforts initiated in earlier years to help manufacturers manage strict new European regulations for medical devices. Motorsport sales remained depressed as a result of the withdrawal of Audi and Volkswagen from the German DTM series. IS-Sommer was also successful in extending its distribution contract with its main supplier of Energy tubing products to a much larger region within Germany, which will provide additional opportunities for growth.

Following over 30% revenue growth last year, Filcon had a tough year with a 26% decrease in revenues due to the absence of major project activity, as well as much lower Motorsport sales following the withdrawal of Audi and Porsche from the Le Mans series and Volkswagen from the World Rally Championship.

Cablecraft reported a 5% increase in revenues as it continued to target new end-user customers including panel builders, switchgear manufacturers, Industrial OEMs and Contractors. During the year the business also focused on substantially refreshing its brand offering and marketing strategy, to be supported by the launch of an enhanced E-commerce website in the first quarter of the new financial year to target a broader range of customers in both the UK and overseas. The facility was also upgraded, creating an expanded and more efficient sales office and relocating the Identification Solutions department to an improved environment that will help drive future growth.

In August 2018, the Group acquired FS Cables, an established and leading supplier of specialist cable products to installers, end-users and wholesalers for a range of industries including Electrical Contracting, Home Automation and Building Management, Rail, Marine and Telecommunications. Based in St Albans, the business primarily supplies own-branded products, which are sourced from a portfolio of long-standing suppliers. These products complement Cablecraft’s range of cable accessory products and will provide cross-selling opportunities to both businesses.

After the year end, in October 2018, the IS-Group acquired Gremtek, a long established and leading supplier of own branded protective sleeving and cable identification products to a broad range of industrial markets principally in France, but also in Germany and elsewhere in Europe. Gremtek’s principal location is in Paris, France, supported by a facility in Quickborn, Germany. The business will be integrated into the IS-Group to support the strategy of developing a broader Interconnect business across Europe.

Specialty Fasteners

The Clarendon Specialty Fasteners business now accounts for 21% of Controls revenues. The acquisition in the US of Coast Fabrication Inc (rebranded Clarendon Specialty Fasteners Inc) in October 2017 contributed to a 25% increase in revenues. After adjusting for this acquisition, underlying revenues increased by 8% with growth driven principally from increased demand from customers in a buoyant Civil Aerospace sector. In this sector Clarendon continued to broaden its customer base of major aircraft seating and cabin interior manufacturers and their subcontractors across Europe and Asia. Clarendon supports its major customers by supplying its product through its automatic inventory replenishment system ("Clarendon AIR"). During the year, the number of sites operating this system doubled, enabling Clarendon to better service these customers' requirements and providing opportunities for further growth.

In Clarendon's other major market of Motorsport, underlying revenue growth from Formula 1 customers was held back by the absence of any major rule changes in 2018. However, new revenue opportunities arose in projects undertaken for "supercar" development with major automotive OEMs. Good revenue growth was also achieved in the supply of preassembled and captive fasteners and bespoke engineered solutions to the Defence and Industrial sectors.

The US business acquired at the beginning of the year has made a good contribution, with particular success in the Space Technology sector. The US business also provides a base to build on the success Clarendon has achieved in the aircraft cabin interiors market in Europe by targeting the US based manufacturers and their subcontractors. The strong Motorsport focus complements Clarendon's existing Motorsport customer base and provides opportunities to increase market share from a more focused sales approach. During the year, investment was made to strengthen sales resources, refurbish the facility and upgrade IT systems to provide a platform for growth.

Fluid Controls

The Hawco Group of Fluid Controls businesses accounts for 20% of Controls revenues and supplies temperature, pressure and fluid control products, principally to the Food & Beverage industry. Revenues decreased by 4% against the prior year reflecting the absence of a large one-off project delivered last year and the decision to focus on higher margin products and pull-back from the highly price competitive air conditioning business.

Hawco experienced a challenging year with weaker activity in the OEM Refrigeration equipment market as key accounts suffered from a softer UK Food Retail market, caused by the low level of new store openings. Sales to the hospitality trade also slowed as chains embarked on programmes to rationalise branches and cannibalise equipment. In the Contractor market, revenues decreased as Hawco focused on the higher margin products and pulled back from the lower margin air conditioning and cold-room business. However, revenues from the Industrial OEM market increased through a focus on core product lines and on developing broader export markets.

Abbeychart reported strong trading in its core markets, although revenue growth was held back by the absence of a large one-off project delivered last year refreshing a range of vending machines. After adjusting for this project, Abbeychart achieved strong revenue growth by focussing on its value added services, such as refurbishment, kitting and assemblies and through improved marketing. In particular, good growth was achieved in the Water, Vending and Soft Drinks sectors where Abbeychart continues to take market share. Abbeychart also continues to strengthen its relationships with key vending machine operators in Europe through the supply of its range of spare parts for Wurlitzer vending machines.

FINANCE REVIEW

Reported and underlying results in 2018

Reported revenues increased by 7% to £485.1m and adjusted operating profit increased by 9% to £84.9m, with each Sector benefiting from a favourable macro-economic environment leading to robust customer demand in all geographies.

A recovery this year in UK sterling, particularly in the first half of the year, led to a currency headwind of 3% on the translation of the results of the overseas businesses, when compared with last year's average exchange rates. This currency headwind led to a reduction in revenues and adjusted operating profits of £13.1m and £2.4m, respectively. Acquisitions completed this year and last year, net of a small disposal this year, incrementally contributed £14.8m and £2.1m to revenue and adjusted operating profit, respectively.

The underlying results present the performance of the Group on a like-for-like basis by 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 strengthening in the UK sterling exchange rate, against most of the currencies of the Group's overseas businesses. With the currency headwind being broadly offset by the incremental contribution from acquisitions (net of a small disposal), underlying revenues and underlying adjusted operating profits also increased by 7% and 9%, respectively.

Adjusted operating margin

The Group's adjusted operating margin improved by 20bps this year to 17.5% (2017: 17.3%) reflecting the benefit of operational leverage, with Group gross margins remaining unchanged from last year.

In Life Sciences, gross margins strengthened slightly, reflecting a more favourable product mix and a small net currency transactional benefit from movements in exchange rates. The Canadian and Australian exchange rates have generally remained more stable this year and the benefit of favourable currency hedge contracts made a positive contribution. In Seals, gross margins slightly weakened as buoyant markets led to supplier price increases and longer product lead times. These price increases were generally not passed through to customers until the second quarter of the financial year. Freight costs also increased to mitigate longer lead times and maintain service levels to customers. In Controls, gross margins improved reflecting the benefit from a favourable product mix, proactive and targeted price increases and a decision to pull-back from lower margin sales opportunities.

Adjusted and statutory profit before tax

Adjusted profit before tax increased by 9% to £84.8m (2017: £77.5m). The interest expense this year was £0.1m (2017: £0.7m) and comprised the interest expense on the Group's net pension deficit, which had reduced from £0.3m last year, reflecting the smaller deficit in the fund at the beginning of this year.

There were no borrowing costs this year (2017: £0.1m) as the Group held cash funds for the majority of the year and interest earned on these cash funds of £0.1m offset bank facility commitment fees of £0.1m (2017: £0.3m). Last year's facility fees included a £0.2m arrangement fee on renewal of the bank facility.

Statutory profit before tax was £72.7m (2017: £66.8m) and is after charging acquisition related charges of £9.6m (2017: £9.7m) (which largely comprise the amortisation of acquisition related intangible assets) and fair value remeasurements of £0.4m (2017: £1.0m). In addition, one-off CEO transition costs of £2.1m were incurred relating to the change of the CEO in the current year.

The CEO transition costs comprise those charges directly attributable to the change, after 22 years, in the leadership of the Group this year. In particular, it includes the costs of recruitment, the costs of employment of the new CEO and the costs of the financial settlement relating to his departure from the Company on 28 August 2018, including advisors costs. These costs are set out in note 15 to the consolidated financial statements. The full year employment costs of Bruce Thompson, the retiring CEO, have been charged against adjusted operating profit and are not included in CEO transition costs.

The charge attributable to fair value remeasurements relate to the put options held over minority interests as described further below.

Tax charge, earnings per share and dividends

The Group's effective tax charge on adjusted profit reduced by 260bps in 2018 to 23.9%, compared with 26.5% last year. This lower rate reflected the impact from the reduction in the US Federal corporate income tax rate to 21% from 35%, effective 1 January 2018. The adjusted profit before tax earned in the US accounts for ca. 26% of Group adjusted profit before tax.

Adjusted earnings per share ("EPS") increased by 13% to 56.4p, compared with 49.8p last year and statutory EPS increased by 13% to 47.5p (2017: 42.0p).

The Board continues to pursue a progressive dividend policy that aims to increase the dividend each year broadly in line with the growth in adjusted EPS. In determining the dividend in any one year, the Board also considers a number of factors which include the strength of the free cash flow generated by the Group, the future cash commitments and investment needed to sustain the Group's long term growth strategy and the target level of dividend cover. The Board continues to target towards two times dividend cover (defined as the ratio of adjusted EPS to total dividends paid and proposed for the year), which provides a prudent buffer. The ability of the Board to maintain future dividend policy will be influenced by the principal risks identified on pages 18 to 22 that could adversely impact the performance of the Group.

For 2018, the Board has recommended a final dividend of 17.8p per share (2017: 16.0p) making the proposed full year dividend 25.5p (2017: 23.0p). This represents an 11% increase in the proposed full year dividend with dividend cover remaining unchanged at 2.2 times.

Free cash flow

Free cash flow represents cash available to invest in acquisitions or return to shareholders. The Group again generated strong free cash flow this year of £60.5m (2017: £55.7m), which benefited from £4.0m received on the sale of the small non-core US business. The free cash flow conversion was 95% (2017: 99%) of adjusted earnings.

The Group's operating cash flow increased by £5.0m to £84.3m (2017: £79.3m) this year, broadly reflecting the increase in operating profit. As anticipated in the Half Year Report, the outflow of cash into working capital improved substantially in the second half of the year to £5.1m (2017: £4.0m) from £11.2m at 31 March 2018. Inventories increased by £8.3m (2017: £5.1m) to meet the stronger trading environment, particularly in the Seals businesses. This was partly offset by an inflow of £3.2m (2017: £1.1m) from an increase in net payables at the year end. The Group's KPI metric of working capital to revenue at 30 September 2018 remained broadly unchanged from last year at 15.1% (2017: 15.0%), again reflecting the robust revenues over the previous rolling 12 months.

Group tax payments decreased by £0.3m to £19.0m (2017: £19.3m). On an underlying basis cash tax payments represented ca. 23% (2017: 24%) of adjusted profit before tax reflecting the benefit from the lower US Federal corporate income tax rate. Underlying tax payments are before currency effects from translation and exclude payments for pre-acquisition tax liabilities in acquired businesses.

The Group's tax strategy is to comply with tax laws in all of the countries in which it operates and to balance its responsibilities for managing tax, with its responsibility to pay tax where it does business. The Group's tax strategy and policies have been approved by the Board this year and tax risks are regularly reviewed by the Audit Committee.

The Group's capital expenditure doubled this year to £6.6m (2017: £3.3m) reflecting in part the impact from new field equipment introduced in the Healthcare businesses and in part investment required in facility and IT infrastructure across the Group to support the increased trading activity seen over the past two years.

The Life Sciences businesses invested £3.5m in new capital this year (2017: £2.0m) of which £2.3m (2017: £1.6m) was invested in field equipment in the Healthcare businesses to support placements of new surgical equipment in hospitals and diagnostic machines in laboratories. A further £0.6m was invested in expanding and refurbishing facilities and offices in both the Healthcare and Environmental businesses and the remaining £0.6m on both warehouse equipment and on upgrading the IT infrastructure.

The Seals businesses invested £2.0m (2017: £1.1m), with £1.5m in the North American Seals businesses and £0.5m in the International Seals businesses. The new ERP systems being implemented in both the US Industrial OEM Seals business and in Kentek accounted for £1.1m and £0.8m was spent on refurbishing facilities and on warehouse equipment. The remaining £0.1m was spent on upgrading the IT infrastructure across the Seals Sector.

In the Controls businesses £1.1m (2017: £0.2m) was invested primarily in expanding and refurbishing existing facilities. In particular the German business, IS-Sommer, invested £0.7m on expanding its existing warehouse and offices in Stuttgart, which is expected to be completed for a total cost of ca. £1.6m in March next year. The remaining £0.4m was spent on refurbishing the facilities in Cablecraft and Coast.

The Company paid the PAYE income tax liability of £1.0m (2017: £0.7m) on the exercise of LTIP share awards in November 2017, in exchange for reduced share awards to participants. In addition, £1.2m was paid to the Employee Benefit Trust to fund the acquisition of 100,000 ordinary shares in the Company to meet incentive awards.

The Group spent £20.4m (2017: £20.1m) of free cash flow on acquisitions, including £2.0m on acquiring outstanding minority shareholdings, as described below and £27.0m (2017: £23.7m) on paying dividends to both Company and minority shareholders.

Acquisitions completed during the year

The Group invested £18.1m on acquiring new businesses this year and paid a further £0.3m of deferred consideration on businesses acquired in prior years. The continuing favourable economic markets in the US and Continental Europe this year contributed again to a much tougher environment to persuade potential vendors to dispose of their companies. However there were tentative signs towards the end of the year that, having enjoyed several years of stronger trading and with uncertainty about the future direction of global economies, some of these vendors were returning to the M&A market.

In August 2018 the Group completed the acquisition of FS Cables, based in St Albans, for £16.9m on a debt/cash free basis. FS Cables is a leading supplier of specialist cable products to installers, end-users and wholesalers for a range of industries. The business complements the Group's existing Cablecraft business acquired in 2016, which supplies cable accessory products used to identify, secure and protect electrical cables. A further £1.2m was spent in October 2017 to acquire Coast, a small specialty fastener distributor based in California, US.

These acquisitions added £9.1m to the Group's acquired intangible assets, which represents the valuation of customer and supplier relationships that will be amortised over periods ranging from five to ten years. At 30 September 2018, the carrying value of the Group's acquired intangible assets was £53.6m and there was a £9.3m charge this year to amortise these assets.

Goodwill at 30 September 2018 was £128.5m and included £5.7m relating to those businesses acquired during the year (including fair value adjustments to the assets acquired). Goodwill is not amortised, but is assessed each year at a Sector level to determine whether there has been any impairment in the carrying value of goodwill acquired. The exercise to assess whether goodwill has been impaired is described in note 10 to the consolidated financial statements. It was confirmed that there was significant headroom on the valuation of this goodwill, compared with the carrying value of goodwill at the year end.

Shortly after the year end, the IS-Group acquired Gremtek, a supplier of own branded protective sleeving products based in France for £7.4m. This business will be integrated into IS-Group to support their expansion into European markets.

Liabilities to minority shareholders

The Group's liability to purchase outstanding minority shareholdings at 30 September 2018 reduced to £4.5m (2017: £6.1m) following the purchase of the outstanding 10% minority shareholding in TPD for £2.0m.

The minority shareholdings outstanding at 30 September 2018 relate to a 10% interest held in both M Seals and Kentek. The options are exercisable in the next financial year.

The liabilities for these put options are valued based on the Directors' latest estimate of the earnings before interest and tax ("EBIT") of these businesses when these options crystallise. A charge of £0.4m (2017: £1.0m) has been included in finance expense to reflect in part a slightly higher expected cost of purchasing these minority interests and in part the unwinding of the discount on the liability.

The Group also has a small liability at 30 September 2018 for deferred consideration of up to £1.1m (2017: £0.5m), which represents the Directors' best estimate of the amount likely to be paid to the vendors of businesses purchased during the year, based on the expected performance of these businesses during the measurement period. During the year, £0.3m was paid as deferred consideration relating to the acquisition of Ascome and Edco in previous years and £0.2m, which was no longer required, was released to the Consolidated Income Statement as part of acquisition related charges.

Return on adjusted trading capital employed and capital management

A key metric used 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 that is applied against the fixed and working capital of the Group, together with all gross intangible assets and goodwill, including goodwill previously written off against retained earnings. At 30 September 2018, the Group ROATCE remained comfortably ahead of our 20% benchmark and improved to 24.5% (2017: 24.0%), which reflects the strong increase in adjusted operating profit this year. Adjusted trading capital employed is defined in notes 2 and 3 to the consolidated financial statements.

The Group continues to maintain a strong balance sheet with cash funds of £36.0m at 30 September 2018, compared with £22.3m last year. Surplus cash funds are generally repatriated to the UK, unless they are required locally to meet certain commitments, including acquisitions.

The Group also maintains a three year revolving multi-currency credit facility that expires on 1 June 2020, but has an option to extend the facility up to 1 June 2022. The facility comprises a £30m committed facility with an accordion option that allows the Group to increase the commitment up to a maximum of £60m of borrowings. These facilities have a ratchet margin ranging from 70bps to 115bps over LIBOR, depending on the ratio of EBITDA to net debt. These bank facilities are primarily used to meet any shortfall in cash to fund acquisitions.

Employee pension obligations

Pension benefits to existing employees, both in the UK and overseas, are provided through defined contribution schemes at an aggregate cost in 2018 of £3.1m (2017: £2.8m).

The Group maintains a small legacy closed defined benefit pension scheme in the UK. A formal triennial funding valuation of this scheme was carried out as at 30 September 2016 and reported a funding deficit of £9.2m with a 75% funding level, which reflected the impact of bond yields falling to a record low of 1.5% at the valuation date. Since the valuation date, bond yields have increased to 2.9% and investment returns have been strong, which has led to a lower funding deficit. This deficit is being funded by cash contributions of £0.5m

(2017: £0.4m) paid by the Company to the scheme. This contribution rate increases annually on 1 October by 2% with the objective of eliminating the deficit within ten years.

During the year, the scheme trustees, with the support of the Company, completed a buy-in of the pensioner liabilities existing at 1 September 2018. The buy-in was completed on 28 September 2018 with Just Retirement Limited for a premium of £13.0m, which was funded by the scheme, utilising substantial investment gains realised on the scheme's growth assets.

A recent decision by the High Court has confirmed that pension schemes will be required to equalise GMPs accrued between 1990 and 1997, between men and women. The UK scheme has not yet equalised GMPs, although as only ca. 25% of the members were contracted out of SERPS prior to 1997, the impact is unlikely to be material to the schemes existing liabilities.

In Switzerland, local law requires Kubo to provide a contribution based pension for all employees, which are funded by employer and employee contributions. This pension plan is managed for Kubo through a separate multi-employer plan of non-associated Swiss companies, which pools the funding risk between participating companies. In Switzerland, Kubo's annual cash contribution to the pension scheme was £0.2m (2017: £0.2m).

Both the UK defined benefit scheme and the Kubo contribution scheme are accounted for in accordance with IAS19 (Revised). At 30 September 2018 the aggregate accounting pension deficit in these two schemes increased slightly by £0.6m to £10.5m with a reduction of the deficit in the Swiss scheme, being more than offset by an increase in the UK scheme deficit. The larger deficit in the UK scheme is because the buy-in premium was larger than the valuation of the corresponding liabilities; the Swiss scheme benefited from a higher discount rate, which led to a reduction in the scheme deficit. The gross aggregate pension liability in respect of these two schemes at 30 September 2018 decreased by £0.4m to £49.1m, which is funded by £38.6m of assets.

Potential impact of Brexit

At an operational level, the impact on the Group's businesses from the current uncertainty over the process and timing of the UK's exit from the European Union is not expected to be significant in terms of the Group's overall profitability. UK based revenues account for only 26% of the Group's overall revenues and the UK businesses, as well as those based in Continental Europe, are substantially "in country" industrial suppliers of goods with limited cross border sales activity.

The Group's financial results may be impacted by macro-economic instability arising from a delayed or disruptive exit from the European Union, such as a depressed UK economy or a substantial depreciation in UK sterling. In such a scenario, there may be a reduction in the Group's UK revenues and operating profits, although Group net assets would benefit from translating the results of the Group's overseas businesses into UK sterling. It is also likely that a depreciation in UK sterling would lead to stronger inflation in supplier costs for the Group's UK based businesses, which would need to be managed robustly to maintain gross margins.

The Board will continue to monitor closely developments in the Brexit plans on its UK businesses. A prolonged disruption at the UK's borders has the potential to impact the supply chain of the Group's UK businesses; however the businesses maintain a strong depth of inventories and have begun to build inventory levels of their faster moving product lines which would mitigate the impact on their activities from a significant disruption in cross border trade between the UK and Continental Europe.

PRINCIPAL RISKS AND UNCERTAINTIES

Set out below are the principal risks and uncertainties affecting the Group that have been determined by the Board, based on a robust risk evaluation process, that have the potential to have the greatest impact on the Group's future viability. These risks are similar to those reported last year, although with some movement on the relative ranking of these risks. There were no new Principal Risks identified from the review process carried out by the Board this year.

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

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

Strategic risk

Relative movement to prior year

Increase

Downturn/instability in major markets

Risk description and assessment

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

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

- The Group's businesses operate in three differing Sectors with different cyclical characteristics and across a number of geographic markets.
- The global economic outlook was more uncertain towards the end of the financial year.
- 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 comprise consumable products that are purchased as part of the customer's operating expenditure, rather than through capital budgets.
- In many cases the products are used in repair, maintenance and refurbishment applications, rather than original equipment manufacturer.

Mitigation

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

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

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

Strategic risk

Relative movement to prior year

No change

Supplier concentration/loss of key suppliers

Risk description and 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 that 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 five 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 principle supplier relationships in each of the Sectors is over ten years.

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

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

Mitigation

Long term, multi-year exclusive contracts signed with suppliers with change of control clauses, where possible, included in contracts for protection or compensation in the event of acquisition.

Collaborative projects and relationships maintained with individuals at many levels of the supplier organisation, together with regular review meetings and adherence to contractual terms.

Regular review of inventory levels.

Bundling and kitting of products and provision of added value services.

Periodic research of alternative suppliers as part of contingency planning.

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

Strategic risk

Relative movement to prior year

No change

Customer concentration/loss of key customer(s)

Risk description and assessment

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

The nature of the Group's businesses is such that there is not a high level of dependence on any individual customer and no single customer represents more than 4% of Sector revenue or more than 2% of Group revenue.

Mitigation

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

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

Operational risk

Relative movement to prior year

Decrease

Cybersecurity/information technology/business interruption

Risk description and assessment

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

Cyber threats to the businesses information systems have this year reduced, following action taken to strengthen the IT infrastructure environment across the Group's businesses.

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

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

Mitigation

There is good support and back-up built into local IT systems and the spread of businesses with their own stand alone IT systems also offers good protection from individual events. The majority of businesses back-up online data at least once a day to an offsite data storage centre.

A member of the Executive Management Committee is responsible for ensuring each business in the Group has a robust cybersecurity programme and reports twice a year to the main Board on the status of cybersecurity across the Group. In addition, education/awareness of cyber threats continues to ensure Group employees protect themselves and Group assets. At 30 September 2018, the majority of businesses had achieved the UK Government endorsed Cyber Essentials accreditation; it is expected that all businesses will be fully accredited within the next six months.

Business continuity plans exist for each business with ongoing testing.

Operational risk

Relative movement to prior year

Loss of key personnel

Increase

Risk description and 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. 100 senior managers in the Group is 11 years and for all personnel in the Group is consistently ca. 7 years.

The uncertainty this year relating to the appointment and subsequent departure of the Chief Executive Officer has led to some instability in management and employees within the Group.

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 or share incentive plans targeted at the individual business level.
- Giving the freedom, encouragement, financial resources and strategic support for managers to pursue ambitious growth plans.

Operational risk

Relative movement to prior year

Product liability

No change

Risk description and assessment

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

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

In situations where a Group business is selling own-branded products and cannot subrogate the liability to a supplier, the business will be liable for failure of the product. A Group business may also be liable for the associated costs of a subsequent customer recall arising directly from failure of an own-branded product.

Mitigation

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

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

Financial risk

Relative movement to prior year

No change

Foreign currency

Risk description and assessment

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

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

A strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce adjusted operating profit before tax by approximately £6.5m (8%), due to currency translation. Similarly, a strengthening of UK sterling by 10% against all the non-UK sterling capital employed would reduce shareholders' funds by £20.4m.

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

Mitigation

The Group operates across a number of diverse geographies but does not hedge translational exposure of operating profit and net assets.

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

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

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

Accounting risk

Relative movement to prior year

No change

Inventory obsolescence

Risk description and assessment

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

The charge against operating profit in respect of old or surplus inventory in the year was £1.5m but inventories are generally not subject to technological obsolescence.

Mitigation

Inventory write-offs are controlled and minimised by active management and 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 2018

The Directors confirm that to the best of their knowledge:

- the Group's consolidated financial statements, prepared in accordance with IFRS as adopted by the EU and the Parent Company financial statements, prepared in accordance with UK Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Parent Company and the undertakings included in the consolidation taken as a whole;

- the Annual Report & Accounts 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, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 19 November 2018 and is signed on its behalf by:

NP Lingwood
Group Finance Director

JE Nicholas
Executive Chairman

Registered office:
12 Charterhouse Square
London
EC1M 6AX

CONSOLIDATED INCOME STATEMENT
For the year ended 30 September 2018

	Note	2018 £m	2017 £m
REVENUE	3,4	485.1	451.9
Cost of sales		(312.2)	(290.8)
Gross profit		172.9	161.1
Distribution costs		(10.8)	(10.6)
Administration costs		(88.9)	(82.0)
OPERATING PROFIT	3	73.2	68.5
Financial expense, net	5	(0.5)	(1.7)
PROFIT BEFORE TAX		72.7	66.8
Tax expense	6	(18.3)	(18.6)
PROFIT FOR THE YEAR		54.4	48.2
Attributable to:			
Shareholders of the Company		53.8	47.5
Minority interests		0.6	0.7
		54.4	48.2
EARNINGS PER SHARE			
Basic and diluted earnings	7	47.5p	42.0p

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)	Note	2018 £m	2017 £m
Operating profit		73.2	68.5
Add: Acquisition related charges	3	9.6	9.7
Add: CEO transition costs	15	2.1	-
ADJUSTED OPERATING PROFIT	3,4	84.9	78.2
Deduct: Interest expense	5	(0.1)	(0.7)
ADJUSTED PROFIT BEFORE TAX		84.8	77.5
ADJUSTED EARNINGS PER SHARE	7	56.4p	49.8p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2018

	2018 £m	2017 £m
Profit for the year	54.4	48.2
Items that will not be reclassified to the Consolidated Income Statement		
Actuarial (losses)/gains in the defined benefit pension schemes	(1.0)	7.1
Deferred tax on items that will not be reclassified	0.2	(1.3)
	(0.8)	5.8
Items that may be reclassified to Consolidated Income Statement		
Exchange rate gains/(losses) on foreign currency net investments	0.1	(0.8)
Gains/(losses) on fair value of cash flow hedges	0.7	(1.0)
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	0.9	(0.2)
Deferred tax on items that may be reclassified	(0.4)	0.3
	1.3	(1.7)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	54.9	52.3
Attributable to:		
Shareholders of the Company	54.2	51.6
Minority interests	0.7	0.7
	54.9	52.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2018

	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 2016	5.7	30.5	0.2	197.1	233.5	4.3	237.8
Total Comprehensive Income	-	(0.8)	(0.9)	53.3	51.6	0.7	52.3
Share-based payments	-	-	-	0.8	0.8	-	0.8
Tax on income recognised directly in equity	-	-	-	0.3	0.3	-	0.3
Notional purchase of own shares	-	-	-	(0.7)	(0.7)	-	(0.7)
Dividends	-	-	-	(23.5)	(23.5)	(0.2)	(23.7)
At 30 September 2017	5.7	29.7	(0.7)	227.3	262.0	4.8	266.8
Total Comprehensive Income	-	0.1	1.2	52.9	54.2	0.7	54.9
Share-based payments	-	-	-	1.0	1.0	-	1.0
Minority interest acquired	-	-	-	2.5	2.5	(2.5)	-
Minority interest contribution	-	-	-	-	-	0.3	0.3
Tax on items recognised directly in equity	-	-	-	0.5	0.5	-	0.5
Notional purchase of own shares	-	-	-	(2.2)	(2.2)	-	(2.2)
Dividends	-	-	-	(26.8)	(26.8)	(0.2)	(27.0)
AT 30 SEPTEMBER 2018	5.7	29.8	0.5	255.2	291.2	3.1	294.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2018

	Note	2018 £m	2017 £m
NON-CURRENT ASSETS			
Goodwill	10	128.5	122.8
Acquisition intangible assets		53.6	54.0
Other intangible assets		1.8	0.7
Investment	11	0.7	0.7
Property, plant and equipment		23.0	22.6
Deferred tax assets		0.3	0.2
		207.9	201.0
CURRENT ASSETS			
Inventories		82.9	73.2
Trade and other receivables		77.6	68.9
Cash and cash equivalents	9	36.0	22.3
		196.5	164.4
CURRENT LIABILITIES			
Trade and other payables		(80.5)	(69.7)
Current tax liabilities	6	(4.8)	(4.0)
Other liabilities	13	(5.6)	(2.5)
		(90.9)	(76.2)
NET CURRENT ASSETS		105.6	88.2
TOTAL ASSETS LESS CURRENT LIABILITIES		313.5	289.2
NON-CURRENT LIABILITIES			
Retirement benefit obligations		(10.5)	(9.9)
Other liabilities	13	-	(4.1)
Deferred tax liabilities		(8.7)	(8.4)
NET ASSETS		294.3	266.8
EQUITY			
Share capital		5.7	5.7
Translation reserve		29.8	29.7
Hedging reserve		0.5	(0.7)
Retained earnings		255.2	227.3
TOTAL SHAREHOLDERS' EQUITY		291.2	262.0
Minority interests		3.1	4.8
TOTAL EQUITY		294.3	266.8

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 September 2018

	Note	2018 £m	2017 £m
OPERATING PROFIT		73.2	68.5
Acquisition related charges	8	9.6	9.7
CEO transition costs, unpaid	8,15	1.3	-
Non-cash items	8	5.3	5.1
Increase in working capital	8	(5.1)	(4.0)
CASH FLOW FROM OPERATING ACTIVITIES		84.3	79.3
Interest paid, net		-	(0.4)
Tax paid		(19.0)	(19.3)
NET CASH FROM OPERATING ACTIVITIES		65.3	59.6
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of businesses (including expenses, net of cash acquired)	12	(18.1)	(19.5)
Deferred consideration paid	13	(0.3)	(0.6)
Proceeds from sale of business (net of expenses)	12	4.0	-
Purchase of property, plant and equipment		(5.3)	(3.1)
Purchase of other intangible assets		(1.3)	(0.2)
Proceeds from sale of property, plant and equipment		-	0.1
NET CASH USED IN INVESTING ACTIVITIES		(21.0)	(23.3)
CASH FLOW FROM FINANCING ACTIVITIES			
Acquisition of minority interests	13	(2.0)	-
Dividends paid to shareholders	14	(26.8)	(23.5)
Dividends paid to minority interests		(0.2)	(0.2)
Purchase of own shares by Employee Benefit Trust		(1.2)	-
Notional purchase of own shares on exercise of share options		(1.0)	(0.7)
Repayment of borrowings, net	9	-	(10.0)
NET CASH USED IN FINANCING ACTIVITIES		(31.2)	(34.4)
Net increase in cash and cash equivalents		13.1	1.9
Cash and cash equivalents at beginning of year		22.3	20.6
Effect of exchange rates on cash and cash equivalents		0.6	(0.2)
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	36.0	22.3

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)			2018 £m	2017 £m
Net increase in cash and cash equivalents			13.1	1.9
Add:	Dividends paid to shareholders	14	26.8	23.5
	Dividends paid to minority interests		0.2	0.2
	Acquisition of businesses (including expenses)	12	18.1	19.5
	Acquisition of minority interests	13	2.0	-
	Deferred consideration paid	13	0.3	0.6
	Repayment of borrowings, net	9	-	10.0
FREE CASH FLOW			60.5	55.7
CASH FUNDS		9	36.0	22.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2018

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 19 November 2018.
These statements are presented in UK sterling, with all values rounded to the nearest 100,000, except where otherwise indicated.

The consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union and in accordance with the Companies Act 2006, as applicable to companies reporting under IFRS. The accounting policies have been consistently applied in 2018 and the comparative year.

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 2018.

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 2018 and 2017. Statutory financial statements for the year ended 30 September 2017 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 2018, which were approved by the Directors on 19 November 2018, will be sent to shareholders on 7 December 2018 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 2018 and 2017. 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 16 January 2019 in Brewers Hall, Aldermanbury Square, London, EC2V 7HR. The Notice of Meeting will be sent out in a separate Circular to shareholders.

2. ALTERNATIVE PERFORMANCE MEASURES

The Group uses a number of alternative (non-Generally Accepted Accounting Practice ("non-GAAP")) performance measures which are not defined within IFRS. The Directors use these measures for internal management reporting in order to assess the operational performance of the Group on a comparable basis and as such, these measures 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 (including the incremental costs related directly to the change of the Chief Executive Officer in 2018) or rationalisation of operations and the profit or loss relating to the sale of businesses or property. The Directors believe that adjusted operating profit is an important measure of the operational performance of the Group.

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

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

2.4 Free cash flow

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

2.5 Trading capital employed and ROATCE

In the Sector 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 full year effect of major acquisitions and disposals. The Directors believe that ROATCE is an important measure of the profitability of the Group.

3. BUSINESS SECTOR ANALYSIS

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

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

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

		Life Sciences		Seals		Controls		Group	
		2018	2017	2018	2017	2018	2017	2018	2017
		£m	£m	£m	£m	£m	£m	£m	£m
Revenue	- existing businesses	134.7	125.9	208.0	195.3	137.3	130.7	480.0	451.9
	- acquisitions	-		-		5.1		5.1	
Revenue		134.7	125.9	208.0	195.3	142.4	130.7	485.1	451.9
Adjusted operating profit	- existing businesses	23.9	23.3	36.0	31.9	24.6	23.0	84.5	78.2
	- acquisitions	-		-		0.4		0.4	
Adjusted operating profit		23.9	23.3	36.0	31.9	25.0	23.0	84.9	78.2
Acquisition related charges		(2.4)	(3.2)	(5.0)	(5.5)	(2.2)	(1.0)	(9.6)	(9.7)
CEO transition costs								(2.1)	-
OPERATING PROFIT		21.5	20.1	31.0	26.4	22.8	22.0	73.2	68.5

Acquisition related charges of £9.6m (2017: £9.7m) comprises £9.3m (2017: £10.3m) of amortisation of acquisition intangible assets, £0.5m of acquisition expenses (2017: £0.4m) and a credit of £0.2m relating to adjustments to deferred consideration (2017: £1.0m credit).

3. BUSINESS SECTOR ANALYSIS (continued)

	Life Sciences		Seals		Controls		Group	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Operating assets	43.5	42.2	80.1	74.6	59.3	48.1	182.9	164.9
Investment	-	-	0.7	0.7	-	-	0.7	0.7
Goodwill	59.0	59.5	40.3	39.9	29.2	23.4	128.5	122.8
Acquisition intangible assets	12.9	15.4	21.8	27.0	18.9	11.6	53.6	54.0
	115.4	117.1	142.9	142.2	107.4	83.1	365.7	342.4
Unallocated assets:								
– Deferred tax assets							0.3	0.2
– Cash and cash equivalents							36.0	22.3
– Corporate assets							2.4	0.5
TOTAL ASSETS	115.4	117.1	142.9	142.2	107.4	83.1	404.4	365.4
Operating liabilities	(21.6)	(21.3)	(32.2)	(26.6)	(25.5)	(21.1)	(79.3)	(69.0)
Unallocated liabilities:								
– Deferred tax liabilities							(8.7)	(8.4)
– Retirement benefit obligations							(10.5)	(9.9)
– Acquisition liabilities							(5.6)	(6.6)
– Corporate liabilities							(6.0)	(4.7)
TOTAL LIABILITIES	(21.6)	(21.3)	(32.2)	(26.6)	(25.5)	(21.1)	(110.1)	(98.6)
NET ASSETS	93.8	95.8	110.7	115.6	81.9	62.0	294.3	266.8

Alternative Performance Measures (Note 2)	Life Sciences		Seals		Controls		Group	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
NET ASSETS	93.8	95.8	110.7	115.6	81.9	62.0	294.3	266.8
Add/(deduct):								
- Deferred tax, net							8.4	8.2
- Retirement benefit obligations							10.5	9.9
- Acquisition liabilities							5.6	6.6
- Cash and cash equivalents							(36.0)	(22.3)
REPORTED TRADING CAPITAL EMPLOYED							282.8	269.2
- Historic goodwill and acquisition related charges, net of deferred tax	31.4	28.8	33.0	28.1	10.2	9.4	74.6	66.3
ADJUSTED TRADING CAPITAL EMPLOYED	125.2	124.6	143.7	143.7	92.1	71.4	357.4	335.5
Pro-forma adjusted operating profit(1)	23.9	24.6	36.3	32.8	27.4	23.0	87.6	80.4
ROATCE	19.1%	19.7%	25.3%	22.8%	29.8%	32.2%	24.5%	24.0%

(1)After annualisation of adjusted operating profit of acquisitions and disposals.

OTHER SECTOR INFORMATION	Life Sciences		Seals		Controls		Group	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Capital expenditure	3.5	2.0	2.0	1.1	1.1	0.2	6.6	3.3
Depreciation and amortisation	2.4	2.2	1.8	1.9	0.6	0.6	4.8	4.7

4. GEOGRAPHIC SEGMENT ANALYSIS BY ORIGIN

	Revenue		Adjusted operating profit		Non-current assets[1]		Trading capital employed		Capital expenditure	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
United Kingdom	130.2	118.4	23.5	20.6	54.1	42.3	79.2	60.1	0.6	0.3
Rest of Europe	115.2	112.8	17.6	17.2	57.0	58.6	76.9	76.9	1.5	0.6
North America	202.3	188.3	39.5	36.3	70.5	70.9	97.1	99.9	4.0	1.9
Rest of World	37.4	32.4	4.3	4.1	25.3	28.3	29.6	32.3	0.5	0.5
	485.1	451.9	84.9	78.2	206.9	200.1	282.8	269.2	6.6	3.3

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

5. FINANCIAL EXPENSE, NET

	2018 £m	2017 £m
Interest (expense)/income and similar charges		
- bank facility and commitment fees	(0.1)	(0.3)
- interest income on bank deposits	0.1	-
- interest expense on bank borrowings	-	(0.1)
- notional interest expense on the defined benefit pension scheme	(0.1)	(0.3)
Net interest expense and similar charges	(0.1)	(0.7)
- fair value remeasurement of put options (note 13)	(0.4)	(1.0)
FINANCIAL EXPENSE, NET	(0.5)	(1.7)

The fair value remeasurement of £0.4m (2017: £1.0m) comprises £0.2m (2017: £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 £0.2m debit (2017: £0.5m debit).

6. TAX EXPENSE

	2018 £m	2017 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
- UK corporation tax	3.9	3.7
- Overseas tax	16.1	17.2
	20.0	20.9
Adjustments in respect of prior year:		
- UK corporation tax	-	(0.5)
- Overseas tax	(0.1)	0.2
Total current tax	19.9	20.6
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
- United Kingdom	(0.4)	(1.9)
- Overseas	(1.2)	(0.1)
Total deferred tax	(1.6)	(2.0)
TOTAL TAX ON PROFIT FOR THE YEAR	18.3	18.6

Factors affecting the tax charge for the year:
The difference between the total tax charge calculated by applying the effective rate of UK corporation tax of 19.0% to the profit before tax of £72.7m and the amount set out above is as follows:

	2018 £m	2017 £m
Profit before tax	72.7	66.8
Tax on profit at UK effective corporation tax rate of 19.0% (2017: 19.5%)	13.8	13.0
Effects of:		
– higher tax rates on overseas earnings	4.0	5.3
– adjustments to current tax charge in respect of previous years	(0.1)	(0.3)
– other permanent differences	0.6	0.6
TOTAL TAX ON PROFIT FOR THE YEAR	18.3	18.6

The Group earns its profits in the UK and overseas. The UK corporation tax rate was reduced from 20.0% to 19.0% on 1 April 2017. As the Group prepares its consolidated financial statements for the year to 30 September, the effective tax rate for UK corporation tax in respect of the year ended 30 September 2018 was 19.0% (2017: 19.5%) and this rate has been used for tax on profit in the above reconciliation.

The reduction in the effective rate of taxation reflects the impact from the reduction in the US Federal corporate income tax rate to 21% from 35%, effective from 1 January 2018. There was no material impact from the revaluation of US deferred tax balances at the reduced tax rate. The Group's US businesses account for ca. 26% of Group revenues and adjusted operating profit before tax.

The Group's net overseas tax rate is higher than that in the UK, primarily because the profits earned in the US, Canada and Australia are taxed at higher rates than the UK.

The UK deferred tax assets and liabilities at 30 September 2018 have been calculated based on the future UK corporation tax rate of 17.0%, as substantively enacted at 30 September 2018.

At 30 September 2018, the Group had outstanding tax liabilities of £4.8m (2017: £4.0m) of which £2.1m related to UK tax liabilities and £2.7m related to overseas tax liabilities. These amounts are expected to be paid within the next financial year.

7. EARNINGS PER SHARE

Basic and diluted earnings per share

Basic and diluted earnings per ordinary 5p share are calculated on the basis of the weighted average number of ordinary shares in issue during the year of 113,140,435 (2017: 113,133,341) and the profit for the year attributable to shareholders of £53.8m (2017: £47.5m). There were no potentially dilutive shares.

Adjusted earnings per share

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

	2018 pence per share	2017 pence per share	2018 £m	2017 £m
Profit before tax			72.7	66.8
Tax expense			(18.3)	(18.6)
Minority interests			(0.6)	(0.7)
Earnings for the year attributable to shareholders of the Company	47.5	42.0	53.8	47.5
Acquisition related charges	8.4	8.6	9.6	9.7
Fair value remeasurement of put options	0.4	0.9	0.4	1.0
CEO transition costs	1.8	-	2.1	-
Tax effects on above adjustments	(1.7)	(1.7)	(2.0)	(1.9)
ADJUSTED EARNINGS	56.4	49.8	63.9	56.3

8. RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES

	2018 £m	2018 £m	2017 £m	2017 £m
Operating profit		73.2		68.5
Acquisition related charges (note 3)		9.6		9.7
CEO transition costs (note 15)		2.1		-
Adjusted operating profit		84.9		78.2
CEO transition costs paid (note 15)		(0.8)		-
		84.1		78.2
Depreciation or amortisation of tangible and other intangible assets	4.8		4.7	
Share-based payments expense	1.0		0.8	
Defined benefit scheme expense	(0.5)		(0.4)	
Non-cash items		5.3		5.1
Operating cash flow before changes in working capital		89.4		83.3
Increase in inventories	(8.3)		(5.1)	
Increase in trade and other receivables	(5.2)		(6.6)	
Increase in trade and other payables	8.4		7.7	
Increase in working capital		(5.1)		(4.0)
CASH FLOW FROM OPERATING ACTIVITIES, BEFORE ACQUISITION EXPENSES		84.3		79.3

9. CASH FUNDS

The movement in cash during the year is as follows:

	2018 £m	2017 £m
Net increase in cash and cash equivalents	13.1	1.9
Decrease in borrowings	-	10.0
	13.1	11.9
Effect of exchange rates	0.6	(0.2)
Movement in net cash	13.7	11.7
Net cash funds at beginning of year	22.3	10.6
CASH FUNDS AT END OF YEAR	36.0	22.3
Comprising:		
Cash and cash equivalents	36.0	22.3
Borrowings	-	-
CASH FUNDS AT 30 SEPTEMBER	36.0	22.3

The Group has a committed multi-currency revolving facility of £30.0m which expires on 1 June 2020 with an accordion option to increase the committed facility by a further £30.0m up to a maximum of £60.0m and a further option to extend the term up to five years. At 30 September 2018, the Group has utilised none of this facility (2017: £Nil). Interest on this facility is payable between 70 and 115bps over LIBOR, depending on the ratio of net debt to EBITDA.

10. GOODWILL

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 1 October 2016	52.8	39.1	23.3	115.2
Acquisitions	6.1	1.4	-	7.5
Exchange adjustments	0.6	(0.6)	0.1	0.1
At 30 September 2017	59.5	39.9	23.4	122.8
Acquisitions (note 12)	-	-	5.7	5.7
Exchange adjustments	(0.5)	0.4	0.1	-
AT 30 SEPTEMBER 2018	59.0	40.3	29.2	128.5

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

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

10. GOODWILL (continued)

The cash flow forecasts are discounted to determine a current valuation using a single market derived pre-tax discount rate of ca. 11% (2017: 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

	2018 £m	2017 £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 2018, there was no material difference between the book value of this investment and its fair value.

12. ACQUISITION AND DISPOSAL OF BUSINESSES

On 16 October 2017 the Group acquired the trade and net assets of Coast Fabrications Inc. ("Coast"), based in California, US, for total cash consideration of £1.2m (US$1.5m), which included £0.1m of acquisition expenses. The Company now trades as Clarendon Specialty Fasteners Inc.

On 21 August 2018 the Group acquired 100% of Caplink Limited and FSC Global Limited (collectively, "FS Cables") based in St. Albans, England, for the initial consideration of £24.3m, which included £7.3m of surplus cash and was before acquisition expenses of £0.4m. Maximum deferred consideration of £1.0m is payable based on the performance of FS Cables for the 12 months ended 31 October 2018.

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

	FS Cables		Coast		Total	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Acquisition intangible assets	-	8.6	-	0.5	-	9.1
Deferred tax	-	(1.6)	-	-	-	(1.6)
Property, plant and equipment	0.3	-	-	-	0.3	-
Inventories	3.8	3.3	0.5	0.5	4.3	3.8
Trade and other receivables	2.5	2.5	0.3	0.3	2.8	2.8
Trade and other payables	(0.4)	(0.8)	(0.3)	(0.3)	(0.7)	(1.1)
Net assets acquired	6.2	12.0	0.5	1.0	6.7	13.0
Goodwill	-	5.5	-	0.2	-	5.7
	6.2	17.5	0.5	1.2	6.7	18.7
Cash paid		24.3		1.1		25.4
Cash acquired		(7.8)		-		(7.8)
Expenses of acquisition		0.4		0.1		0.5
NET CASH PAID, AFTER ACQUISITION EXPENSES		16.9		1.2		18.1
Deferred consideration payable (note 13)		1.0		0.1		1.1
Less: expenses of acquisition		(0.4)		(0.1)		(0.5)
Total consideration		17.5		1.2		18.7

The fair values set out above are provisional and will be finalised in the next financial year. Goodwill of £5.7m recognised on these acquisitions represents the amount paid for future sales growth from both new customers and new products, operating cost synergies and employee know-how.

From the date of acquisition to 30 September 2018, the newly acquired Coast business contributed £4.0m to revenue and £0.2m to operating profit, the newly acquired FS Cables business contributed £1.1m to revenue and £0.2m to 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 £17.6m to revenue and £2.8m to 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.

One 30 June 2018, Hercules Fluid Power Group, based in the US, sold the Bulldog Hydraulics and Gaskets business and trading assets at net asset value for net cash consideration of £4.0m (US$5.4m), comprising tangible assets of £0.3m and net working capital of £3.7m. The business contributed revenues of £4.7m and an operating loss of £0.3m for the nine months ended 30 June 2018.

13. OTHER LIABILITIES

	2018 £m	2017 £m
Future purchases of minority interests	4.5	6.1
Deferred consideration	1.1	0.5
	5.6	6.6
Analysed as:		
Due within one year	5.6	2.5
Due after one year	-	4.1

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

	2018 £m	2017 £m
At 1 October	6.1	5.1
Acquisition of minority interests on exercise of options	(2.0)	-
Unwinding of discount	0.2	0.5
Fair value remeasurements	0.2	0.5
AT 30 SEPTEMBER	4.5	6.1

At 30 September 2018, the Group retained put options to acquire minority interests in Kentek and M Seals.

On 17 November 2017 and 30 March 2018, the Group completed the acquisition of the outstanding 10% minority interest in TPD for cash consideration of £2.0m (€2.3m). At 30 September 2018, the Group retained put options to acquire minority interests of 10% held in each of M Seals and Kentek which are both exercisable from November 2018.

At 30 September 2018, 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 2018. This led to a remeasurement of the fair value of these put options and the liability was increased by £0.2m (2017: £0.5m) reflecting a revised estimate of the future performance of the businesses and by a further £0.2m (2017: £0.5m) charge which arises from unwinding the discount on the liability. In aggregate £0.4m (2017: £1.0m) has been charged to the Consolidated Income Statement.

Deferred consideration comprises the following:

	2018 £m	2017 £m
Ascome	-	0.1
Edco	-	0.4
Coast	0.1	-
FS Cables	1.0	-
AT 30 SEPTEMBER	1.1	0.5

The amounts outstanding at 30 September 2018 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 £0.2m was paid to the vendors of Edco in respect of the performance of the business in the year ended 30 April 2018 and £0.1m was paid to the vendor of Ascome. A further £0.2m has been released to the Consolidated Income Statement as part of acquisition related charges in note 3.

14. DIVIDENDS

	2018 pence per share	2017 pence per share	2018 £m	2017 £m
Interim dividend, paid in June	7.7	7.0	8.7	7.9
Final dividend of the prior year, paid in January	16.0	13.8	18.1	15.6
	23.7	20.8	26.8	23.5

The Directors have proposed a final dividend in respect of the current year of 17.8p per share (2017: 16.0p) which will be paid on 23 January 2019, subject to approval of shareholders at the Annual General Meeting on 16 January 2019. The total dividend for the current year, subject to approval of the final dividend, will be 25.5p per share (2017: 23.0p).

15. CHIEF EXECUTIVE OFFICER TRANSITION COSTS

Richard Ingram joined the Board on 23 April 2018 and was appointed Chief Executive Officer ("CEO") on 8 May 2018. Bruce Thompson retired as both CEO and as Executive Director on 8 May 2018, but remained available to support an orderly transition until his retirement from the Company on 30 September 2018. Accordingly for a period of time during the year, the Company was bearing the cost of two CEO roles.

On 28 August 2018, Richard Ingram stepped down from his role as both CEO and Executive Director and left the Company with immediate effect.

The one-off and incremental costs associated with the transition of the CEO comprise a significant restructuring cost to the Group and have been excluded in determining adjusted operating profit to present the operational performance of the Group on a consistent basis. The costs relating to the CEO transition of £2.1m comprise:

	Charged in year £m	Paid in year £m	Outstanding at 30 September £m
Employment costs			
- as CEO	0.3	(0.3)	-
- in lieu of notice	0.5	(0.1)	0.4
Compensation on loss of office	0.4	-	0.4
Recruitment costs[1]	0.6	(0.3)	0.3
Other related costs, including advisors	0.3	(0.1)	0.2
	2.1	(0.8)	1.3

[1] Includes recruitment costs relating to a new recruitment search process that commenced in August 2018.

16. EXCHANGE RATES

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

	Average		Closing	
	2018	2017	2018	2017
US dollar (US$)	1.35	1.27	1.30	1.34
Canadian dollar (C$)	1.73	1.67	1.69	1.68
Euro (€)	1.13	1.15	1.12	1.13
Swiss franc (CHF)	1.31	1.26	1.27	1.30
Australian dollar (A$)	1.78	1.67	1.80	1.71

17. SUBSEQUENT EVENTS

On 12 October 2018, the Group completed the acquisition of Actios SAS, the parent company of the Gremtek Group ("Gremtek") of companies. Gremtek is a leading supplier of own-branded protective sleeving and cable identification products to a broad range of industrial markets, principally in France, but also in Germany and elsewhere in Europe. The initial consideration was £7.4m (€8.4m) with deferred consideration payable of up to £0.5m (€0.6m), based on performance in the year ending 31 December 2018. A review to determine fair values of the net assets acquired will be completed during the next financial year.