Chairman's Statement

Strong growth in shareholder value

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

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

Results

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

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

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

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

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

Dividends

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

The total dividend per share for the year will be 20.0p (2015: 18.2p) which represents a 10% increase on 2015. The dividend is well covered by adjusted EPS at 2.1 times, in line with the Board's objective of targeting towards a two times level of cover.

"I am pleased with the good progress achieved this year against a background of challenging economic conditions."

Governance

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

Employees

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

Outlook

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

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

John Nicholas
Chairman
21 November 2016

Adjusted EPS growth (pence)

+8% p.a.[1]

16	**41.9**
15	38.2
14	36.1
13	34.8
12	33.1

TSR growth (TSR index 2011 = 100)

26% p.a.[1]

16	**316**
15	233
14	236
13	218
12	154

Dividend growth (pence)

+11% p.a.[1]

16	**20.0**
15	18.2
14	17.0
13	15.7
12	14.4

1 Five-year compound.

Principal corporate objectives

- Achieve double-digit growth in adjusted EPS over the business cycle
- Generate TSR growth in the upper quartile of the FTSE 250
- Deliver progressive dividend growth with two times dividend cover

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx