DIPLOMA PLC

Annual Review 2016

Compounding growth

Diploma PLC is an international group of businesses supplying specialised technical products and services. We operate globally in three distinct Sectors:

Life Sciences

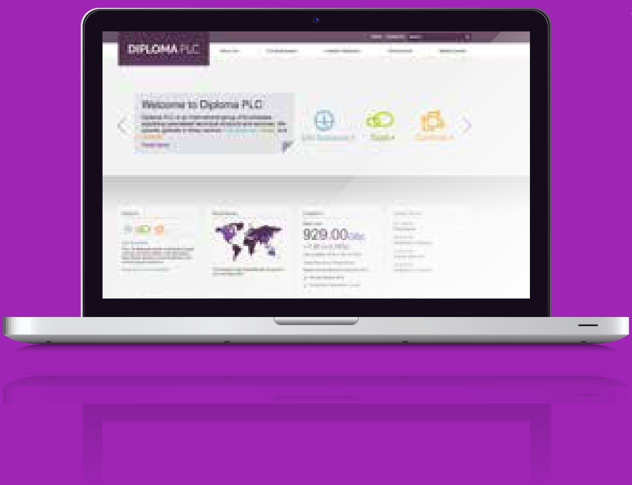
Suppliers of consumables, instrumentation and related services to the healthcare and environmental industries.

Seals

Suppliers of seals, gaskets, filters, cylinders, components and kits for heavy mobile machinery and industrial equipment.

Controls

Suppliers of specialised wiring, connectors, fasteners and control devices for technically demanding applications.



www.diplomaplc.com
For current information on Diploma PLC, including the Annual Report & Accounts 2016, please visit our website.

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Group at a Glance

A clearly defined strategy and consistent track record

GDP+ organic revenue growth

We focus on essential products and services, funded by customers' operating rather than capital budgets, giving resilience to revenues.

Attractive margins

Our attractive operating margins are sustained through the quality of customer service, the depth of technical support and value adding activities.

Acquisitions to accelerate growth

Carefully selected, value enhancing acquisitions accelerate the organic growth and take us into related strategic markets.

Strong cash flow

An ungeared balance sheet and strong cash flow fund our growth strategy while providing healthy and growing dividends.

Value creation

We aim to create value by consistently exceeding 20% ROATCE.

We focus on supplying essential products and services across a range of specialised industry sectors.

Life Sciences

Healthcare (83% of revenues)
Medical devices and related consumables and services supplied to hospital pathology laboratories, operating rooms and GI Endoscopy suites and clinics.

Environmental (17% of revenues)
Environmental analysers, containment enclosures and emissions monitoring systems.

29%
of revenues

SEE PAGES 16-17

Seals

Aftermarket (53% of revenues)
Next day delivery of seals, sealing products, filters and cylinder components for the repair of heavy mobile machinery.

Industrial OEMs (47% of revenues)
Sealing products and custom moulded and machined parts supplied to manufacturers of specialised industrial equipment.

44%
of revenues

SEE PAGES 18-19

Controls

Interconnect (76% of revenues)
Wiring, harness components and fasteners used in specialised applications in Aerospace, Defence, Motorsport, Energy, Medical and Industrial.

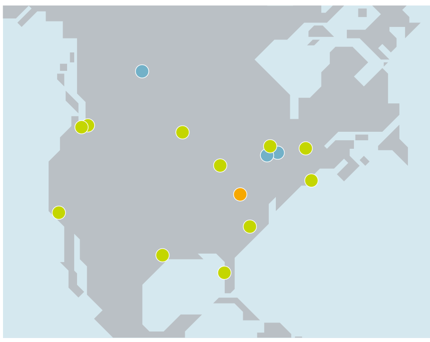
Fluid Controls (24% of revenues)
Temperature, pressure and fluid control products used in Food, Beverage and Catering industries.

27%
of revenues

SEE PAGES 20-21

The Group is well diversified by geographic and business area.

North America

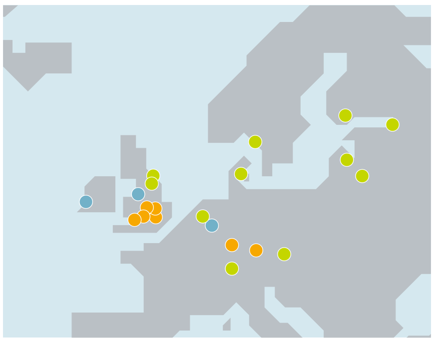


North American revenues (by destination) by sector

42%
of Group revenues

23% US
19% Canada

Europe



European revenues (by destination) by sector

48%
of Group revenues

23% UK
25% Continental Europe

Rest of World

Rest of World revenues (by destination) by sector

10%
of Group revenues

Life Sciences · Seals · Controls

Financial Highlights

Strong results and excellent free cash flow

	2016		2015
Revenue	£382.6m	+15%	£333.8m
Adjusted operating profit[1]	£65.7m	+9%	£60.3m
Adjusted operating margin[1]	17.2%		18.1%
Adjusted profit before tax[1,2]	£64.9m	+9%	£59.6m
Profit before tax	£54.0m	+4%	£51.8m
Free cash flow[3]	£59.0m	+46%	£40.3m

	2016 pence		2015 pence
Adjusted earnings per share[1,2]	41.9	+10%	38.2
Basic earnings per share	33.9	+4%	32.5
Total dividend per share	20.0	+10%	18.2
Free cash flow per share[3]	52.2	+46%	35.6

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

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, trading capital employed and return on adjusted trading capital employed ("ROATCE"). The narrative in the Annual Review is based on these alternative measures and an explanation is set out in note 2 to the consolidated financial statements included in the Annual Report & Accounts.

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

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

Chief Executive's Review

Building larger, broader based businesses

"The Group's strategy, consistently applied, delivers strong growth in earnings and shareholder value."

Group strategy and corporate objectives

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

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

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

Business model

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

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

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

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

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

Growth strategy

Overall growth is accelerated from the underlying GDP plus levels to the corporate target of strong, double-digit growth, through carefully selected, value enhancing acquisitions which fit the business model and offer entry into new strategic markets.

Acquisitions are not made just to add revenue and profit, but rather to bring into the Group successful businesses which have growth potential, capable management and a good track record of profitable growth and cash generation. As part of our **Acquire, Build, Grow** strategy, we invest in the businesses post-acquisition to build a firm foundation to allow them to move to a new level of growth. These acquisitions form a critical part of our Sector growth strategies and are designed to generate a pre-tax return on investment of at least 20% and hence support our Group objectives for return on total investment.

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

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

Management strength

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

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

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

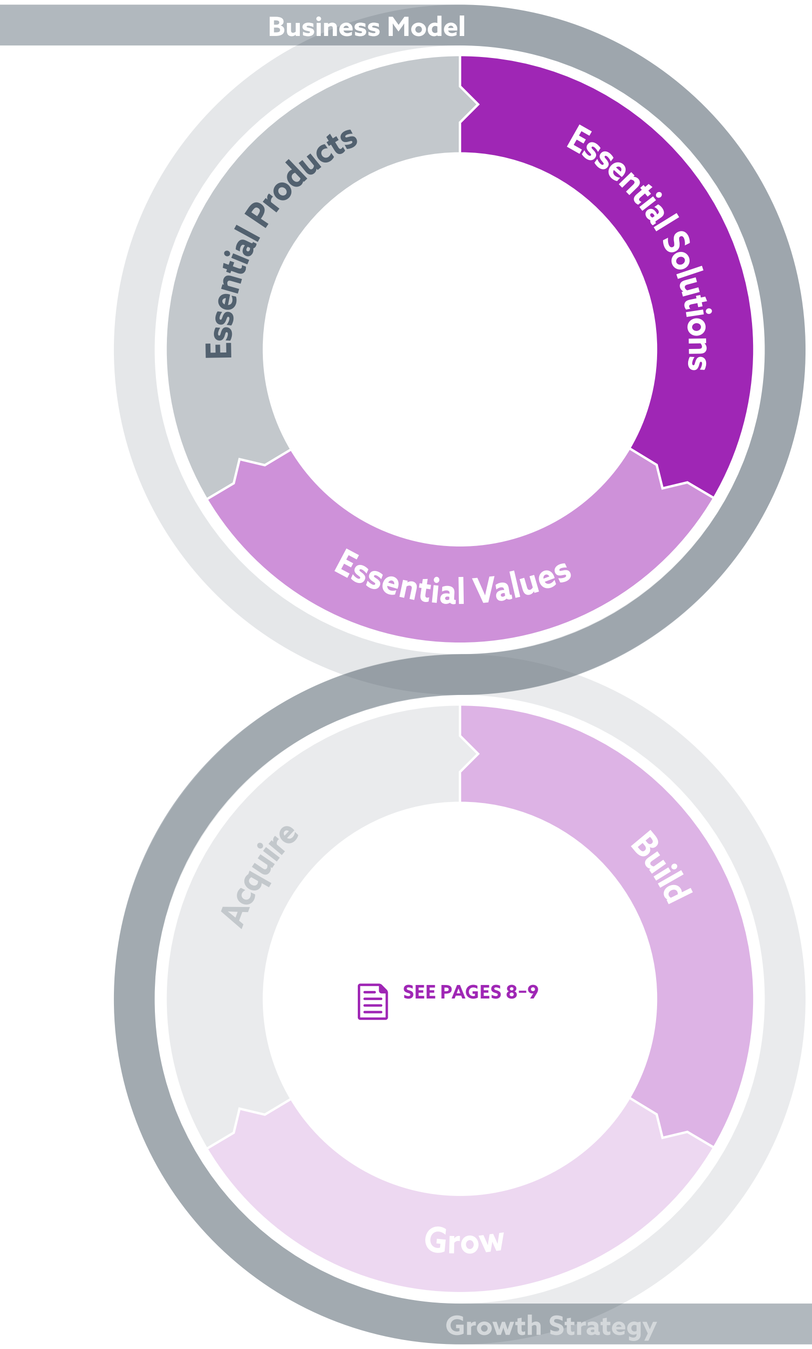
Strategic objectives

- Generate stable GDP plus organic revenue growth over the business cycle
- Maintain stable attractive margins
- Accelerate growth through carefully selected, value enhancing acquisitions
- Generate consistently strong cash flow to fund growth strategy and dividends
- Create value by consistently exceeding 20% ROATCE

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

Our Business Model

Making us essential to our customers



What we put in

Essential Products

Our businesses focus on supplying essential products and services funded by customers' operating rather than capital budgets and supplied across a range of specialised industry segments.

The majority of the Group's revenues are generated from consumable products. In many cases, the products will be used in repair and maintenance applications and refurbishment and upgrade programmes, rather than supplied to original equipment manufacturers.

Essential Solutions

Our businesses design their individual business models to provide solutions which closely meet the requirements of their customers.

The solutions can be in the form of:

- Highly responsive customer service, such as the next day delivery from stock of essential, but low value items.
- Deep technical support, where we work closely with our customers in designing our products into their specific applications.
- Added value services which, if we did not provide these services, customers would have to pay others to provide them or would require them to invest in additional resources of their own.

Essential Values

We encourage an entrepreneurial culture across our businesses, through a decentralised management structure.

We want the managers to feel that they have the freedom to run their own businesses, while being able to draw upon the support and resources of a larger group where this is beneficial.

Within our businesses we have strong, self-standing management teams who are committed to and rewarded according to the success of their businesses.

What we get out

Recurring income and stable revenue growth
Our focus on essential products and services contributes to the Group's record of stable revenue growth over the business cycle.

Our businesses target GDP plus levels of organic revenue growth, over the economic cycle, with higher growth rates achieved at the Group level through carefully selected value enhancing acquisitions.

Sustainable and attractive margins
By supplying solutions, not just products, we build strong long term relationships with our customers and suppliers, supporting sustainable and attractive margins.

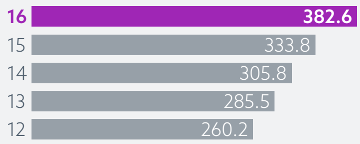
Our businesses achieve sustainable and attractive gross margins by offering strongly differentiated products and customer focused solutions within specialised market segments. By running efficient operations, these gross margins are converted into healthy operating margins.

Agility and responsiveness
Our decentralised organisational model ensures 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.

Agility and responsiveness in the businesses ensure close management of operating costs and working capital and deliver strong free cash flow.

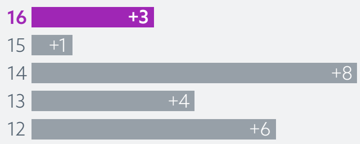
KPIs

Total revenue growth (£m)



+11% p.a.
Five-year compound

Underlying revenue growth (%)

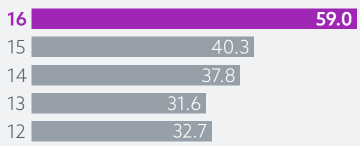


+4% p.a.
Five-year average

Adjusted operating margins (%)

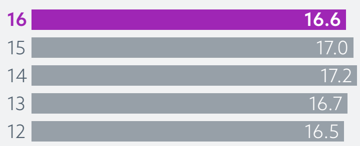
18–19%
Five-year average

Cash flow (£m)



£40m p.a.
Five-year average

Working capital (%)



16–17%
of revenue

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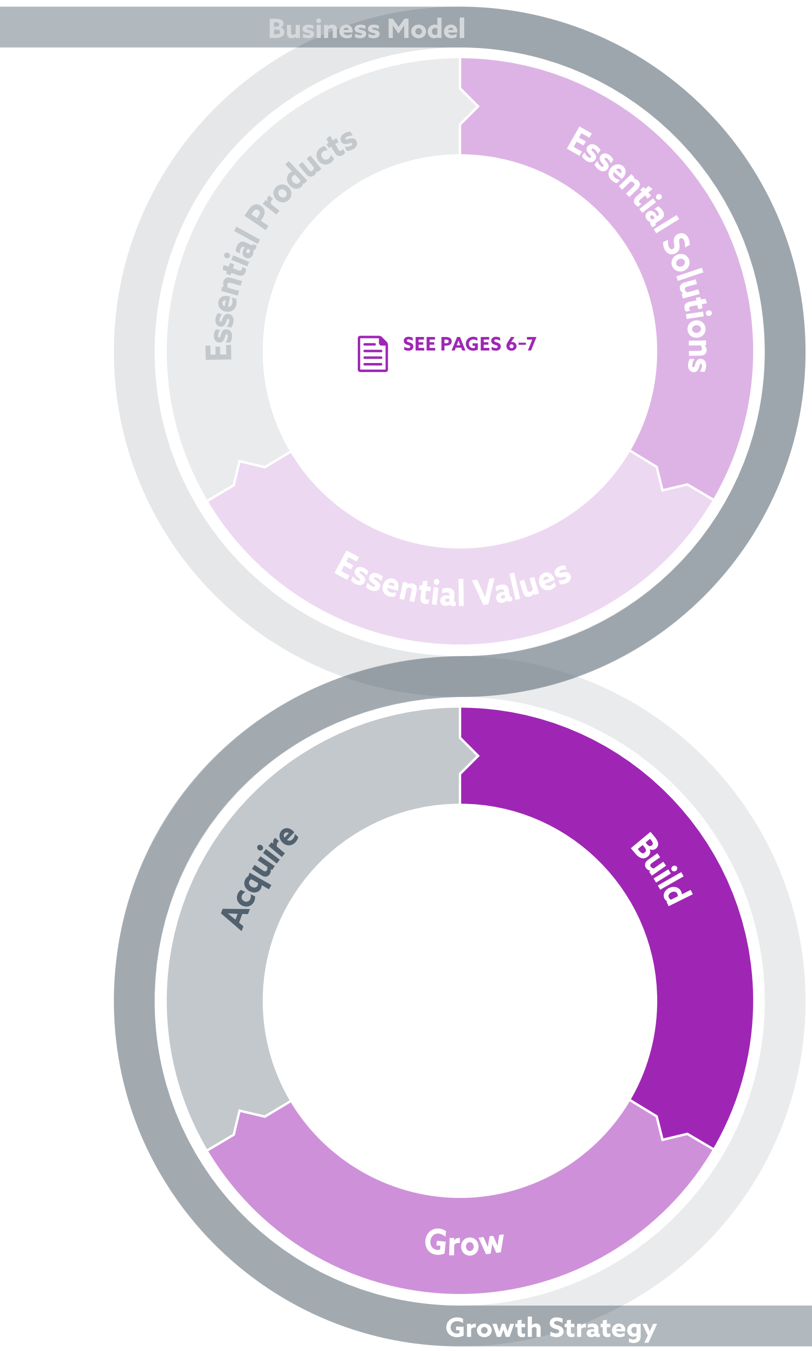
Growth Strategy

Delivering strong, double-digit growth



What we put in

Acquire

Clear business criteria have been established to guide the Group's acquisition programme:

- Fit with the Group's business model
- Marketing led with strong customer relationships
- Secure supply of high quality, differentiated products
- Capable management

The principal financial criteria are:

- Track record of stable, profitable growth and cash generation
- Exceed post-tax IRR threshold of 13% to ensure 20%+ pre-tax return on investment

Build

Acquisitions are intended to give entry into new but related markets and thereby extend the reach of the existing businesses and bring new growth opportunities.

The acquisitions we make are of businesses which are already successful and with a good track record. However, these businesses have typically reached the point where additional resources are needed to take them to the next level of growth.

Working with the management, we provide the investment required to build a solid foundation to allow the business to move to a new level of growth. The investment we make in new acquisitions will normally be in new facilities and IT systems, increased but better managed working capital and additional management resource.

Grow

Once the acquisition is integrated into the Group, with a solid platform established, the focus is on delivering stable, profitable growth.

The results of the Acquire, Build, Grow strategy can be seen in the improving revenue growth and operating margins post acquisition.

What we get out

The Group applies a consistent level of effort and resources to identifying and developing acquisition opportunities. However, the output in terms of acquisitions completed, ebbs and flows depending on the acquisition environment.

To achieve the Group's objective of strong double digit growth, acquisition spend of ca.£30m p.a. is targeted.

Over the last three years, this target has been met, with a total of ca.£90m invested in acquisitions. These acquisitions have contributed 20% of 2016 Group revenues.

Except in the case of smaller bolt-on acquisitions, the acquired companies maintain their distinct sales and marketing identity and strong independent management teams.

Where there are opportunities for synergies with other Group businesses, these are managed in larger business clusters.

Typically synergies within the business clusters come in the following areas:

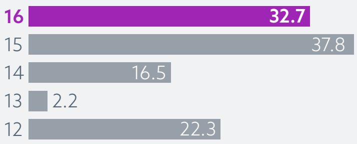
- Cross-selling between the businesses
- Joint purchasing between the businesses
- Shared operational infrastructure and shared back-office functions

By the third year post-acquisition, organic revenue growth for the acquired businesses is typically higher than the Group average and operating margins have improved by 200-300bps on average.

These improvements in financial performance ensure that the Group creates value through its acquisition programme and maintains ROATCE above the 20% threshold.

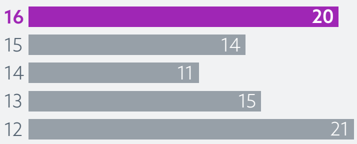
KPIs

Acquisition spend (£m)



£22m p.a.
Five-year average

Revenue from acquisitions (%)



Percentage of revenue from acquisitions completed over the last (rolling) three years

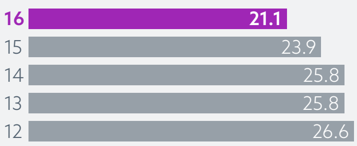
16%
Five-year average

Adjusted operating margin (Δbps)

Improvement in adjusted operating margin of acquired businesses three years after acquisition

200–300bps

ROATCE (%)



25%
Five-year average

For more information, please visit:
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Acquisition Integration

Value enhancing acquisitions accelerate growth

Acquire

Acquisitions bring into the Group successful businesses which have growth potential, capable management and a good track record of profitable growth and cash generation

Build

We invest in the businesses post-acquisition (e.g. facilities, IT, working capital, additional management) to build a solid foundation to allow the business to move to a new level of growth

What acquisitions give us

1. Accelerated growth – overall growth is accelerated from the underlying GDP plus levels to the corporate objective of strong double-digit growth
2. New market entry – acquisitions give entry into new but related markets and thereby extend the reach of the existing businesses and bring new growth opportunities
3. Shareholder value – by investing in the businesses post-acquisition, we move them to a new level of growth and improve operating margins thereby creating value (>20% ROI)

How we manage new acquisitions

- Maintain distinct sales and marketing identity
- Develop strong self-standing management teams
- Identify synergies as part of larger business clusters:
  - Joint purchasing between businesses
  - Cross-selling between businesses
  - Shared operations and back office functions

Grow

Once the acquisition is integrated into the Group, with a solid platform established, the focus is on delivering profitable stable growth and improving operating margins

Years 2–4

Higher revenue growth

Improved operating margins

Acquisitions – total expenditure of ca.£90m over last three years

Financial year	Acquisition spend	Life Sciences	Seals	Controls
2016	£32.7m		• WCIS – Australia & New Caledonia	• Cablecraft – UK • Ascome – France
2015	£37.8m	• TPD – Ireland	• Kubo – Switzerland & Austria • Swan Seals – UK	
2014	£16.5m	• Chemzyme – Australia	• Kentek – Finland, Russia & Baltic States • Ramsay – UK • AB Seals – UK	• SFC – UK • Sacee – France

For more information, please visit:
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Executive Management Group

Strengthening management

The Group's essential values and culture

The success of the Group is built upon strong, self-standing management teams in the operating businesses who are committed to and rewarded according to the success of their businesses.

In specialised distribution businesses it is essential that decisions are made close to the customer and that the businesses are agile and responsive to changes in the market and competitive environment.

We therefore encourage an entrepreneurial culture across our businesses, through a decentralised management structure. This culture is also very attractive to managers who join the Group in acquired businesses and are used to such a culture in privately owned businesses.

We also recognise that there are significant synergy benefits which can be achieved through managing clusters of similar businesses. We have therefore introduced small teams of senior managers to manage the major business clusters while being careful not to allow the build-up of heavy divisional structures with their associated costs and bureaucracy. This ensures that we gain the benefits of scale, while retaining agility in the operating businesses.

The senior management teams are responsible for maximising the potential of their business clusters, but also for identifying and progressing acquisition opportunities.

Executive Management Group

A formal Executive Management Group ("EMG") has now been established to ensure that we have a strong and broad-based senior management team in place to support the next stage of the Group's growth strategy.

As the Group grows larger and more broadly spread, it is important that senior managers are given the opportunity to enhance their perspective of the Group's activities in order to reinforce the key elements of the Group's culture and to identify best practices which are transferable across the Group.

The EMG comprises the Executive Directors and the senior managers who are responsible for the major business clusters and key Group functions. The EMG members are a combination of internally developed managers and experienced senior managers who have been recruited externally.

The EMG meets quarterly through a combination of full group meetings in London and sub-group meetings held in the business cluster locations.

The EMG gives the senior management bench strength to manage a growing and broadly spread Group while laying the groundwork for succession in key Executive positions.

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

Our Year in Review

Strong performance in challenging markets

"The Group has delivered strong performance boosted by acquisitions and a currency tailwind."

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

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

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

Sector performance

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

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

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

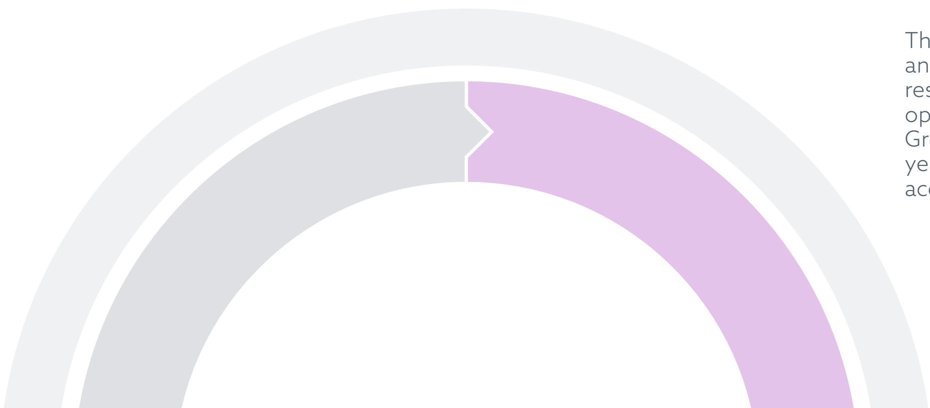
Acquisitions and disposals

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

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

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

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



Sector Review

Life Sciences

% of Group revenue

29%

Geography[1]
57% Canada
30% Europe
13% Rest of World

Customers
84% Clinical
10% Utilities
3% Chemical & Petrochemical
2% Life Sciences Research
1% Other Life Sciences

Products
72% Consumables
18% Instrumentation
10% Service

362
Employees

Principal businesses
Diploma Healthcare Group ("DHG")
a1-group

Seals

% of Group revenue

44%

Geography[1]
56% North America
34% Europe
10% Rest of World

Customers
39% Industrial OEMs
24% Heavy Construction
19% Other Industrial
13% Industrial Aftermarket
3% Dump & Refuse Trucks
2% Logging & Agriculture

Products
38% Seals & Seal Kits
18% Cylinders & Other
16% O-rings
11% Filters
11% Gaskets
6% Attachment Kits

803
Employees

Principal businesses
Hercules Fluid Power Group ("HFPG")
FPE Seals, Kentek, M Seals, Kubo, WCIS

Controls

% of Group revenue

27%

Geography[1]
60% UK
31% Continental Europe
9% Rest of World

Customers
32% Industrial
29% Aerospace & Defence
15% Food & Beverage
15% Motorsport
5% Energy & Utilities
4% Medical & Scientific

Products
42% Wire & Cable
19% Fasteners
13% Equipment & Components
12% Connectors
10% Control Devices
4% Other Controls

415
Employees

Principal businesses
IS-Group, Filcon, Cablecraft, Clarendon
Hawco Group

1 By destination.

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

Life Sciences

Building a larger, broader-based Life Sciences business

Highlights from the year

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

Performance in the year
Reported revenues of the Life Sciences businesses increased by 7% to £109.9m, with currency movements, on translation of the results from overseas businesses into UK sterling, contributing 3% to revenue growth. On a constant currency basis, underlying revenues increased by 4%.

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

	2016	2015
Revenue	**£109.9m**	£103.1m
Adjusted operating profit	**£19.6m**	£21.0m
Adjusted operating margin	**17.8%**	20.4%
Free cash flow	**£19.0m**	£15.6m
ROATCE	**17.7%**	21.1%

Free cash flow generated in 2016 increased by £3.4m to £19.0m of which £2.2m related to the disposal of a product line and the balance arose from reductions in working capital and capital expenditure.

Sector developments
The DHG group of Healthcare businesses account for 83% of Life Sciences revenues. The DHG model is to build strong market positions in growing niche Healthcare markets. Products are sourced from high quality medical device manufacturers, under the terms of long term exclusive distribution agreements. Full service solutions are provided by highly qualified technical sales and product application staff, working closely with surgeons, operating room nurses and laboratory technologists. A large proportion of revenues are secured under multi-year customer contracts.

In Canada, DHG revenues were broadly flat for the year as significant budget pressures continued to be felt throughout the Provincial Healthcare systems, driven by the tough economic environment. Somagen's clinical diagnostics business continued to be impacted by the freeze in capital spending in Quebec and stricter patient testing criteria in Alberta's colorectal screening programme. To counter these headwinds, Somagen has generated good revenue growth from its successful a1c diabetes testing programme and has continued to invest in new product introductions to broaden its portfolio in growth segments.

In late September 2016, Vantage completed the sale of its Medivators endoscope reprocessor product line to Cantel Medical Corporation along with the Vantage facility lease and a large proportion of the Vantage operational employees. Vantage has retained its other principal product lines (ca.60% of Vantage revenues) and the related key commercial and clinical staff. From the start of the new financial year, Vantage is now being managed as a division of AMT, with integrated warehousing, logistics and back office functions. AMT and Vantage together now form a single, strong Surgical and GI specialty medical device business in Canada.

+7%
Revenue growth

17.8%
Adjusted operating margin

£19.0m
Free cash flow

In Australia, the Healthcare sector has experienced similar economic and budget pressures to Canada, but has the added capacity of private Healthcare spending to offset some of the economic constraints. Against this background, the BGS and DSL businesses have delivered good levels of growth through their positioning in growing segments of the market, including smoke evacuation devices used in electrosurgery and capillary electrophoresis instruments used in testing for multiple myelomas and diabetes.

The TPD business is an established supplier to the Healthcare and Biotechnology markets in Ireland and the UK and delivered a second year of good revenue growth since acquisition. Growth in Healthcare has been driven by laboratory quality controls in the clinical diagnostic segment of the hospital laboratory market and by specialty medical devices used in interventional cardiology and digestive health. The Biotechnology product portfolio has also delivered good revenue growth in rapid microbial identification equipment used in industrial laboratories across the Pharmaceutical, Food and Water sectors. In January 2016, TPD consolidated and relocated its operations into a newly refurbished facility which provides significant capacity to support DHG's growth ambitions in Europe.

The a1-group of Environmental businesses in Europe, which account for 17% of Life Sciences Sector revenues, delivered solid GDP plus revenue growth and ended the year with an improved order book. The a1-envirosciences business based in Germany delivered double-digit growth, driven by demand for its containment enclosures and high end elemental and trace analysers. The a1-CBISS business based in the UK saw reductions in revenues from continuous emissions monitoring systems ("CEMS"). However, this sector remains buoyant with new Biomass and Energy from Waste ("EFW") plants an important part of the UK's energy portfolio. a1-CBISS is responding to increased competition in large new sites by focusing on replacement systems and owner operator sites where specialist knowledge and customised software solutions give competitive advantage. Revenues from service contracts, across both Environmental businesses, continue to grow with each capital installation and now represent a third of the combined revenues.

Potential for growth

- Increase share of specialised segments of Healthcare markets in Canada and Australia
- Build presence in the UK and Ireland from TPD base and explore opportunities more broadly in Europe
- Extend into other specialised medical disciplines with new products and technologies
- Continue to develop product and geographic spread of Environmental businesses

The DHG businesses act as exclusive distributors for high quality medical device manufacturers

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

Seals

Building a larger, broader-based Seals business

Highlights from the year

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

Performance in the year

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

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

Across the Seals businesses, gross margins continued to be resilient, underpinned by the business model of superior product availability and added value technical services. The acquired businesses joined the Group with strong gross margins but with higher operating cost ratios and therefore lower initial operating margins. As a result, adjusted operating margins for the Sector reduced by 90bps to 16.9%. Adjusted operating profits increased by 14% to £28.2m and free cash flow increased by over 40% to £24.9m, reflecting both a full year contribution from the acquired businesses and a large reduction in working capital.

Sector developments

The Seals businesses in North America account for ca.60% of Seals Sector revenues, of which just over half are contributed by the Aftermarket businesses and the balance from Industrial OEM businesses.

The core Aftermarket businesses supply own-branded sealing products used in a broad range of heavy mobile machinery applications. The products are generally supplied from inventory on a next day delivery basis and are typically used in the repair and maintenance of equipment after it has completed its initial warranty or lease term. Our businesses act as a one-stop source of replacement components for all main brands of machinery. Revenues were constrained this year by sluggish activity in the Heavy Construction sector, in particular in the resource dependent States. However, sales and marketing resources have been strengthened and specific growth initiatives continue to gain traction, including the sale of seal kits to large national rental fleets and contractors through dedicated buying portals; online revenues through Webstore also continue to increase. The businesses are well positioned to take advantage of a potential increase in Infrastructure investment following the US election.

The Industrial OEM businesses in North America supply seals, O-rings and custom moulded and machined parts used in a range of specialised industrial equipment. The businesses work closely with their customers to specify the most appropriate sealing material and design for the customer's application and provide the necessary supply chain and technical support, in most cases for the lifetime of the product. The businesses continue to respond to the overall low growth environment by maintaining strong relationships with core industrial equipment customers, ensuring high levels of customer service in support of existing projects, as well as offering higher specification, regulatory-compliant compounds for

	2016	2015
Revenue	£166.6m	£139.6m
Adjusted operating profit	£28.2m	£24.8m
Adjusted operating margin	16.9%	17.8%
Free cash flow	£24.9m	£17.8m
ROATCE	20.1%	23.7%

+19%
Revenue growth

16.9%
Adjusted operating margin

£24.9m
Free cash flow

industries including Pharmaceutical, Water and Food equipment and for fuel dispensing applications.

The International Seals businesses in the EMEA and Australasia regions, now account for ca.40% of Sector revenues and are a mix of Aftermarket and Industrial OEM businesses. The FPE Seals business delivered GDP plus growth in revenues with a second half improvement in activity levels. At the beginning of the year, FPE Seals became fully operational from its new facility in Darlington in the UK, which is now the core operational hub for further expansion across the EMEA region. Kentek delivered strong double digit growth despite challenging economic conditions in its principal markets. In Russia, growth was driven by new sales offices and increased government investment in the Agricultural and Manufacturing sectors. In Finland, new management has given additional structure and impetus to the sales efforts which have re-established revenue growth.

M Seals delivered strong revenue growth in its core markets of Denmark and Sweden, with a number of major new projects developed with its key customers. UK revenues were impacted by cut-backs in the Oil & Gas sector and M Seals has extended sales efforts to specialised Industrial OEMs in other sectors of the UK market. Kubo faced challenging market conditions in Switzerland as the strong Swiss franc (following its decoupling from the Euro) has made Swiss manufacturers less competitive in export markets. Against this background, Kubo has made progress in taking market share from competitors through sales initiatives, technical support and responsiveness.

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

Potential for growth

- Continue to gain share in Aftermarket Seals in North America through superior marketing and product development
- Build and expand group of Industrial OEM Seals businesses in North America
- Build larger, broader-based Seals business in the EMEA and Asia Pacific regions
- Explore opportunities more broadly in Industrial Distribution in North America

Our Seals businesses supply a broad range of seals, gaskets and custom moulded and machined components

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

Controls

Building a larger, broader-based Controls business

Highlights from the year

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

Performance in the year

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

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

Adjusted operating profits increased by 23% to £17.9m and free cash flow increased strongly to £16.4m reflecting stronger trading, including the additional contribution from Cablecraft and a modest reduction in working capital.

	2016	2015
Revenue	**£106.1m**	£91.1m
Adjusted operating profit	**£17.9m**	£14.5m
Adjusted operating margin	**16.9%**	15.9%
Free cash flow	**£16.4m**	£11.4m
ROATCE	**28.9%**	30.5%

Sector developments

The Interconnect businesses account for 76% of Sector revenues and supply a range of high performance wiring, connectors, harness components, fasteners and control devices. These products are used in technically demanding applications, often in harsh environments. The businesses act as a single source for a wide range of products, have strong technical knowledge to specify products into customer applications and offer ex-stock availability and a full range of value-added services.

The IS-Group businesses in the UK and US responded to the generally low growth environment in its Industrial markets, by realigning sales resources to focus on sectors and customer accounts with the highest growth potential, including Aerospace, Defence and Motorsport. Investments have also been made in developing digital media capabilities and in positioning the IS-Group as the supplier of choice for the full range of specialist cable harnessing components.

In Defence, activity levels in electrical harnessing customers increased and there was a generally buoyant market in Aerospace, boosted by specific projects. In Motorsport, activity benefited from additional races in the Formula 1 race schedule and increased investment from new entrants. The IS-Group has also been closely involved with the 2017 America's Cup series, with products widely specified in the Test Boats and now also confirmed in the build programmes for the Race Boats.

In Germany, IS-Sommer has a strong and growing position in the supply of products used in the repair and maintenance of the low and medium voltage electricity network. Increased activity is also being seen in the Defence and Military Aerospace sector in Germany where there is growing pressure on Germany to upgrade its military capabilities. In Motorsport, Filcon achieved strong growth in the supply of specialist connectors to leading Motorsport teams and has the distinction of being the preferred supplier to the World Champions in the Formula 1, Le Mans 24 hour and World Rally Championship series.

+16%
Revenue growth

16.9%
Adjusted operating margin

£16.4m
Free cash flow

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

In March 2016, the Group completed the acquisition of Cablecraft, a leading supplier of cable accessory products with ca.80% of its revenues accounted for by own-branded and manufactured products. In addition to broadening the product range of the Interconnect businesses, the acquisition has also extended the range of markets served to include Electrical contracting, Control panels, Rail and signalling, Energy & Utilities.

The Clarendon specialty fastener business is now managed as a stand-alone business and this year delivered strong double-digit growth. Clarendon's key aircraft seat customer increased production as its new business class seating programmes ramped up and Clarendon took full benefit with its prior year implementation of a large new lineside supply project, using the "Clarendon Air" solution. Clarendon also had significant success increasing sales to other aircraft seating and cabin interiors manufacturers and sub-contractors across Europe and introducing Clarendon Air to a number of new customers. In Motorsport, Clarendon benefited from increased development expenditure by the teams preparing for design and rule changes planned for the 2017 Formula 1 season.

Fluid Controls

The Hawco Group of Fluid Controls businesses account for 24% of Controls sector revenues and supply a range of fluid control products used broadly across the Food, Beverage and Catering industries. Hawco has seen an upturn in sales from Refrigeration Equipment customers in Continental Europe and Turkey and has benefited from close relationships with major air conditioning and refrigeration contracting groups, served through partnerships with independent trade counters. Abbeychart has continued to enhance its offering of essential parts to service the broad range of espresso type machines being installed in an increasing number of outlets. Abbeychart has also focused growth initiatives in the craft brewing and export markets.

Potential for growth

- Extend Interconnect product line and further penetrate specialised markets in Europe
- In Specialty Fasteners, build on strong positions in Civil Aerospace and Motorsport and expand in niche industrial markets
- Continue to reposition Fluid Controls business towards growth segments of the Food & Beverage sectors
- Expand geographic reach outside UK and Northern Continental Europe

The acquisition of Cablecraft has extended the Interconnect product line and the range of markets served

Finance Review

Strong free cash flow funds acquisitions

17.2%
Adjusted operating margin

£59.0m
Free cash flow

21.1%
ROATCE

Strong growth in revenues and adjusted operating profits

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

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

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

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

Robust adjusted operating margin

The Group's adjusted operating margin remained broadly in line with the first half of the year at 17.2% (compared with 18.1% last year) continuing to be impacted by weaker gross margins in the Healthcare businesses.

Diploma's Healthcare businesses represent ca.25% of Group revenues and their gross margins have again been impacted this year on a transactional basis by the substantial depreciation of the Canadian and Australian dollars against the US dollar in particular, which is the currency in which most of their products are purchased. The depreciation of these two currencies began in late 2013 and has continued through the past two years, reaching a low point in mid-January 2016. In this financial year, currency depreciation led to a 390bps reduction in the gross margins of the Canadian and Australian Healthcare businesses compared with last year.

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

The Group's adjusted operating margin is also impacted when acquired businesses join the Group with initial operating margins which are lower than the Group's average. With the increased acquisition spend over the last three years, this has impacted operating margins negatively by 30bps this year. However, investment by the Group in these acquisitions to grow revenues, combined with synergy benefits, will generally improve margins in the 2–3 years post-acquisition and move them towards the Group's average.

Margins this year were impacted positively by the mix of Group revenues and the absence of one-off costs from last year's reorganisation in the Seals businesses. These together accounted for a 40bps improvement in the Group adjusted operating margin.

> **"The businesses acquired during the past three years contributed 20% of Group revenues in 2016."**

Increase in adjusted profit before tax and adjusted EPS
Adjusted profit before tax increased by 9% to £64.9m after a finance expense this year of £0.8m which arises on a combination of borrowings drawn down during the year to help finance acquisitions and a small interest expense on the Group's defined pension liabilities.

With the Group's adjusted effective accounting tax charge in 2016 reducing slightly from last year to 25.7%, the Company's adjusted earnings per share increased by 10% to 41.9p.

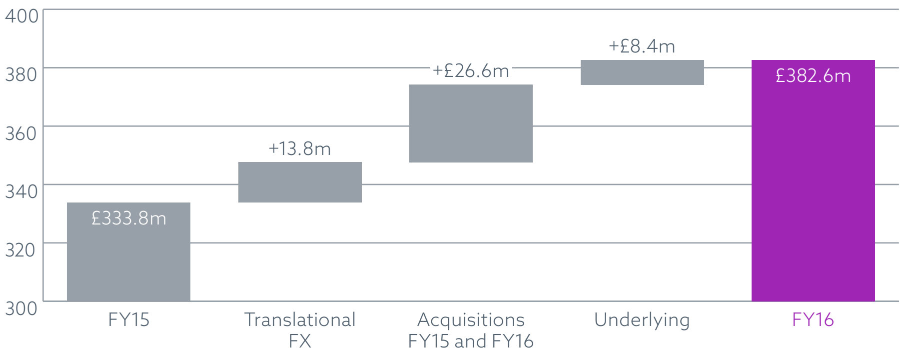
High free cash flow and strong financial position
A key characteristic of the Group's business model is the ability of the businesses to generate strong free cash flow – being cash available to invest in acquisitions or return to shareholders.

The Group generated very strong free cash flow in 2016 which increased by £18.7m to £59.0m. A reduction in working capital contributed £6.3m to cash resources and the proceeds from the one-off sale of assets added a further £4.6m to free cash flow.

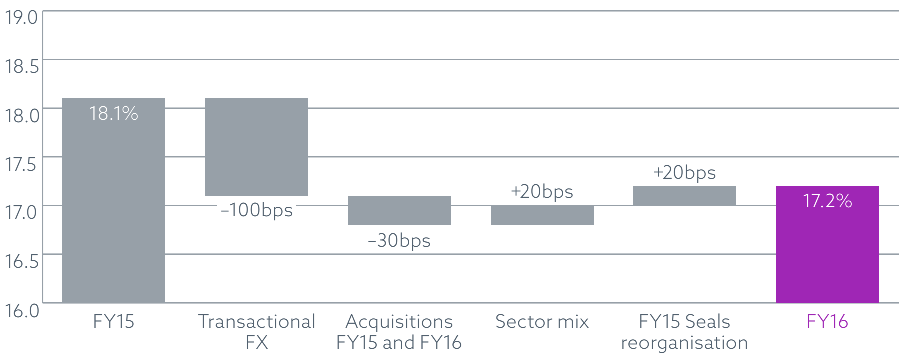
The Group's KPI performance metric of working capital as a proportion of revenue reduced to 16.6% at 30 September 2016, compared with 17.0% last year; this metric reduces to 15.3% on a constant currency basis.

The Group's financial position remains strong with net cash funds of £10.6m at 30 September 2016. The Group also has additional financial resources available in the form of a revolving multi-currency credit facility comprising committed bank facilities of £50.0m. These resources, together with the free cash flow, finance the Group's acquisition strategy.

Underlying revenue bridge – FY2016 (£m)



Adjusted operating margin bridge – FY2016 (%)



Acquisitions completed during the year
The Group invested a further £32.7m in acquiring new businesses this year, including £1.9m on acquiring outstanding minority interests and £0.7m of deferred consideration.

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

Value delivered to shareholders
A key performance metric that the Group uses to provide an indication of the overall profitability of the Group and its success in creating value for shareholders is the Return on Adjusted Trading Capital Employed ("ROATCE").

This represents the adjusted operating margin as a ratio of the fixed and working capital of the Group, together with all gross intangible assets and goodwill (also referred to as total invested capital). At 30 September 2016, the Group ROATCE was 21.1% which remains comfortably above the Group's target threshold of 20%.

The Group's strong free cash flow also allows it to continue to pay healthy dividends to shareholders. The Board's policy is to increase dividends to shareholders each year, while targeting towards two times dividend cover (defined as the ratio of adjusted EPS to total dividends paid and proposed for the year). A combination of a robust Group balance sheet and particularly strong free cash flow provides the Directors with confidence to recommend a total dividend for the year of 20.0p per share which represents the 17th year of successive growth in dividends. The dividend remains 2.1 times covered by adjusted EPS, unchanged from last year.

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

Board of Directors

John Nicholas[1,3]
Chairman

Appointed:
Joined the Board on 1 June 2013 and appointed Chairman on 21 January 2015.

Skills and experience:
A Chartered Certified Accountant with a Masters degree in Business Administration from Kingston University. John has a wealth of business and commercial experience and spent much of his early career in technology-focused international manufacturing and service companies involved in analytical instruments, fire protection and food processing.

He has been Group Finance Director of Kidde plc (on its demerger from Williams Holdings) and of Tate & Lyle PLC.

External appointments:
John is currently non-Executive Director and Chairman of the Audit Committees of Mondi plc and Hunting PLC. John is Senior Independent Director of Rotork plc.

Bruce Thompson
Chief Executive Officer

Appointed:
Joined the Board in 1994 as a Group Director and appointed Chief Executive Officer in 1996.

Skills and experience:
Bruce started his career in the automotive industry, first as a design engineer and then in product marketing. He then spent three years in international marketing with a construction materials company, developing new markets in Europe, the Middle East and North Africa. Prior to joining Diploma, he was a Director with Arthur D Little Inc., the technology and management consulting firm, initially in the UK and then as Director of the firm's Technology Management Practice based in Cambridge, Massachusetts.

External appointments:
None.

Charles Packshaw[1,2,3]
Senior Independent Non-Executive Director

Appointed:
Joined the Board on 1 June 2013 and appointed Senior Independent Director on 27 February 2015.

Skills and experience:
Charles is Head of UK Advisory and Managing Director in HSBC's global banking business. He has over 30 years of City experience, including 18 years at Lazard in London, where he was Head of Corporate Finance, prior to joining HSBC in 2002. Charles has been a non-Executive Director of two listed companies and he is also a Chartered Engineer.

External appointments:
Charles is a non-Executive Director of BMT Group Limited.

Nigel Lingwood
Group Finance Director

Appointed:
Joined the Company in June 2001 and appointed Group Finance Director in July 2001.

Skills and experience:
Prior to joining the Company, Nigel was the Group Financial Controller at Unigate PLC where he gained experience of working in a large multinational environment and on a number of large corporate transactions. Nigel qualified as a Chartered Accountant with Price Waterhouse, London.

External appointments:
Nigel is Senior Independent Director and Chairman of the Audit Committee of Creston plc.

Anne Thorburn[1,2,3]
Non-Executive Director

Appointed:
Joined the Board on 7 September 2015 and appointed Chairman of the Audit Committee on 17 November 2015.

Skills and experience:
Anne was Chief Financial Officer of Exova Group plc until 30 November 2015 and has many years of experience at Board level in listed international groups. Anne was previously Group Finance Director at British Polythene Industries PLC. Anne is a member of the Institute of Chartered Accountants in Scotland.

External appointments:
None.

Andy Smith[1,2,3]
Non-Executive Director

Appointed:
Joined the Board and appointed Chairman of the Remuneration Committee on 9 February 2015.

Skills and experience:
Andy is Managing Director, Severn Trent Business Services with responsibility for the company's non-regulated businesses. He has many years of plc Board level experience having previously served on the Boards of The Boots Company PLC as Group HR Director and Severn Trent PLC as Water Services Director. Andy is a Mechanical Engineering graduate and has significant operational and HR experience. He has worked in the UK and overseas previously with global businesses including BP, Mars and Pepsi.

External appointments:
None.

Member of:
1 Remuneration Committee
2 Audit Committee
3 Nomination Committee

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

Five Year Record

Year ended 30 September	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Revenue	**382.6**	333.8	305.8	285.5	260.2
Adjusted operating profit	**65.7**	60.3	56.7	54.3	52.8
Adjusted profit before tax	**64.9**	59.6	56.2	54.3	52.6
Fixed assets	**24.7**	24.0	13.9	14.7	13.0
Working capital	**63.4**	59.9	54.2	47.8	44.4
Goodwill and intangible assets	**169.8**	129.5	108.8	105.2	112.0
Investment	**0.7**	0.7	0.7	0.7	0.7
Reported trading capital employed	**258.6**	214.1	177.6	168.4	170.1
Net cash funds	**10.6**	3.0	21.3	19.3	7.9
Other assets/(liabilities), net	**(31.4)**	(22.3)	(11.6)	(9.4)	(10.8)
Net assets	**237.8**	194.8	187.3	178.3	167.2
Cash flow from operating activities	**76.6**	62.1	55.0	55.9	50.2
Free cash flow	**59.0**	40.3	37.8	31.6	32.7
Acquisition expenditure	**(32.7)**	(37.8)	(16.5)	(2.2)	(22.3)
	Pence	Pence	Pence	Pence	Pence
Adjusted earnings per share	**41.9**	38.2	36.1	34.8	33.1
Dividends per share	**20.0**	18.2	17.0	15.7	14.4
Net assets per share	**210.0**	172.0	165.4	157.5	147.7
	%	%	%	%	%
Adjusted operating margin	**17.2**	18.1	18.5	19.0	20.3
Working capital as percentage of revenue	**16.6**	17.0	17.2	16.7	16.5
Return on adjusted trading capital employed ("ROATCE")	**21.1**	23.9	25.8	25.8	26.6

The information above has been extracted from the audited Annual Report & Accounts of Diploma PLC and does not constitute statutory information. Diploma PLC uses alternative performance measures as key performance 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, trading capital employed and ROATCE, as explained in note 2 to the consolidated financial statements in the Annual Report & Accounts.

Financial Calendar, Shareholder Information and Advisors

Announcements (provisional dates)

First Quarter Statement released	18 January 2017
Annual General Meeting (2016)	18 January 2017
Half Year Results announced	15 May 2017
Third Quarter Statement released	30 August 2017
Preliminary Results announced	20 November 2017
Annual Report posted to shareholders	8 December 2017
Annual General Meeting (2017)	17 January 2018

Dividends (provisional dates)

Interim announced	15 May 2017
Paid	14 June 2017
Final announced	20 November 2017
Paid (if approved)	24 January 2018

Annual Report & Accounts
Copies can be obtained from the Group Company Secretary at the address shown below.

Share Registrar – Computershare Investor Services PLC
The Company's Registrar is Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. Telephone: 0870 7020010. Its website for shareholder enquiries is www.computershare.co.uk.

Shareholders' enquiries
If you have any enquiry about the Company's business or about something affecting you as a shareholder (other than questions dealt with by Computershare Investor Services PLC) you are invited to contact the Group Company Secretary at the address shown below.

Group Company Secretary and Registered Office
AJ Gallagher FCIS, Solicitor, 12 Charterhouse Square, London EC1M 6AX. Telephone: 020 7549 5700. Fax: 020 7549 5715. Registered in England and Wales, number 3899848.

Website
Diploma's website is www.diplomaplc.com.

Advisors

Investment Bankers
Lazard
50 Stratton Street
London W1J 8LL

Corporate Stockbrokers
Numis Securities
10 Paternoster Square
London EC4M 7LT

Solicitors
Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

Auditor
Deloitte LLP
2 New Street Square
London EC4A 3BZ

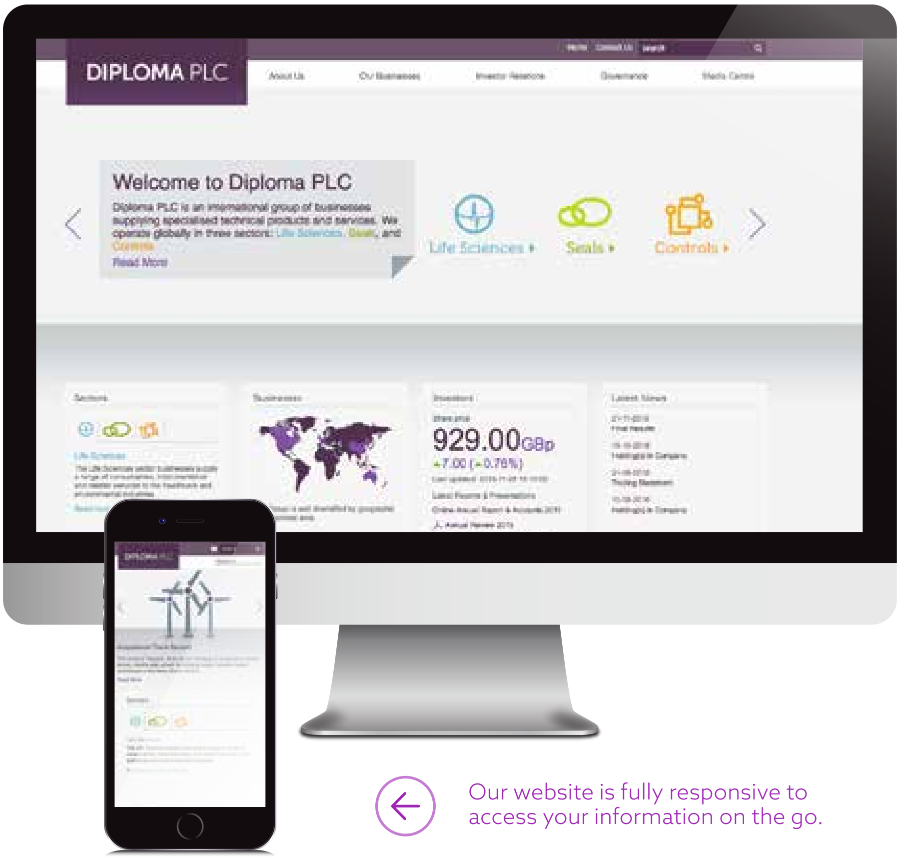
Bankers
Barclays Bank PLC
1 Churchill Place
London E14 5HP

HSBC Bank plc
City Corporate Banking Centre
60 Queen Victoria Street
London EC4N 4TR

For More Information

To access press releases, news, presentations and up-to-date information visit our website.

www.diplomaplc.com



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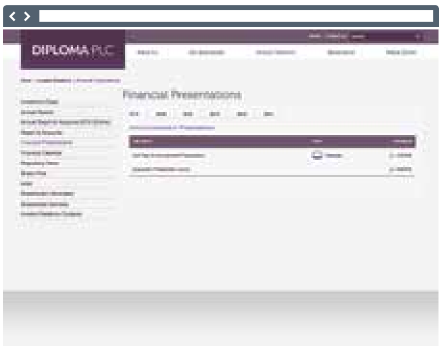

Find out more information about our principal businesses and links to their websites.

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