DIPLOMA PLC

Annual Review 2014

A strong track record of growth

NEXT PHASE OF GROWTH

Our Sectors

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 hydraulic 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 2014, please visit our website.

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Group at a Glance

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

LIFE SCIENCES

Healthcare (80% of revenues)
Medical devices and related consumables and services supplied to hospital pathology laboratories, operating rooms and GI Endoscopy suites and clinics.

Environmental (20% of revenues)
Environmental analysers, containment enclosures and emissions monitoring systems.

Principal businesses
DHG, a1-group

30% of revenues

334 employees worldwide

More about Life Sciences strategic approach on pages **14–15**

SEALS

Aftermarket (60% of revenues)
Next day delivery of seals, sealing products, filters and cylinder components for the repair of heavy mobile machinery.

Industrial OEMs (40% of revenues)
Sealing products and custom moulded and machined parts supplied to manufacturers of specialised industrial equipment.

Principal businesses
HFPG, FPE Seals, Kentek, M Seals

39% of revenues

604 employees worldwide

More about Seals strategic approach on pages **16–17**

CONTROLS

Interconnect (70% of revenues)
Wiring, harness components and fasteners used in specialised applications in Aerospace, Defence, Motorsport, Energy, Medical and Industrial.

Fluid Controls (30% of revenues)
Temperature, pressure and fluid control products used in Food, Beverage and Catering industries.

Principal businesses
IS Group, Specialty Fasteners, Filcon, Hawco

31% of revenues

312 employees worldwide

More about Controls strategic approach on pages **18–19**

The Group is well diversified by geographic and business area.

Life Sciences
- Healthcare
- Environmental

Seals
- Aftermarket
- Industrial OEM

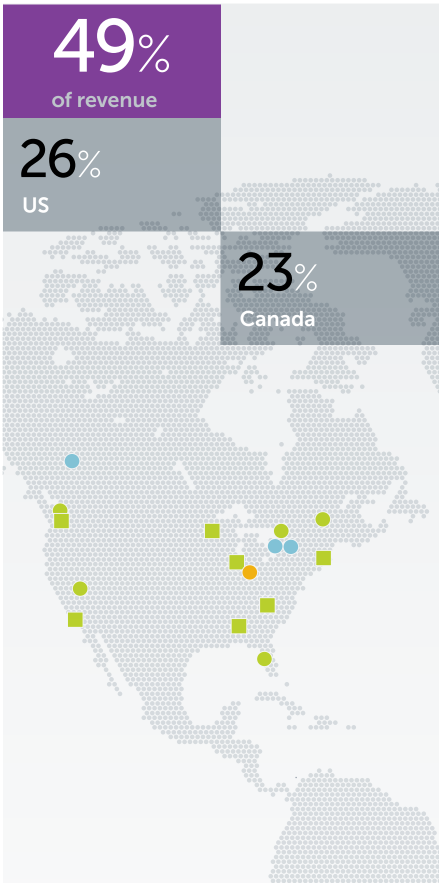
Controls
- Controls

North America

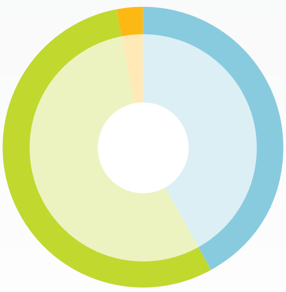
49% of revenue

26% US

23% Canada



North American revenues[1] by Sector



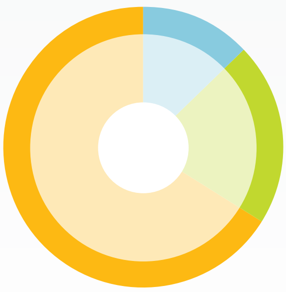
Europe

43% of revenue

23% UK

20% Continental Europe

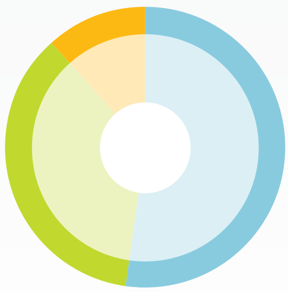
European revenues[1] by Sector



Rest of World

8% of revenue

Rest of World revenues[1] by Sector



Life Sciences Seals Controls

1 By destination

Financial Highlights

2014
Year ended 30 September

	2014	Change	2013
Revenue	£305.8m	+7%	£285.5m
Adjusted operating profit[1]	£56.7m	+4%	£54.3m
Adjusted operating margin[1]	18.5%		19.0%
Adjusted profit before tax[1,2]	£56.2m	+3%	£54.3m
Profit before tax	£49.8m	+3%	£48.5m
Free cash flow[3]	£37.8m	+20%	£31.6m

	2014 pence		2013 pence
Adjusted earnings per share[1,2]	36.1	+4%	34.8
Basic earnings per share	31.4	+2%	30.7
Total dividends per share	17.0	+8%	15.7
Free cash flow per share[3]	33.4	+20%	27.9

1 Before acquisition related charges.
2 Before fair value remeasurements.
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.

Chairman's Statement

"The fundamental principle of the Board is to focus on consistently strong cash flow."

John Rennocks
Chairman

Delivering strong returns to shareholders
As previously announced, I will be stepping down from the Board immediately after the AGM on 21 January 2015. I joined the Board in 2002 and became Chairman in 2004, following the retirement of the late Christopher Thomas who had previously been Chief Executive and then Chairman of the Company for over 30 years. His guiding objective for the Company was to focus on consistently strong cash flow which would fund the Group's growth strategy and deliver healthy and growing dividends; this has remained a fundamental principle of the Board during my Chairmanship of the Company over the last ten years.

The Group's strong cash flow is generated from businesses which focus on essential products and services within specialised market segments and deliver sustainable and attractive margins, through the quality of customer service, depth of technical support and value adding activities. It is this business model that has provided the Group with the resources over ten years to invest ca.£160m of our internally generated cash in value enhancing acquisitions to support our growth strategy and deliver strong shareholder value.

The success in pursuing this strategy can be measured against the Group's two principal corporate objectives of growth in adjusted earnings per share ("EPS") and total shareholder return ("TSR"). The target for adjusted EPS is to deliver strong double-digit growth over the business cycle and since 2004 the Group's adjusted EPS has grown at a compound rate of 16% p.a. The objective for TSR growth is to deliver upper quartile performance relative to the FTSE mid-250 Index Group ("FTSE-250") and over the last ten years, Diploma's TSR has grown at a compound rate of 24% p.a. compared with median growth of 13% p.a. in the FTSE-250.

I believe that this sustained performance demonstrates the Board's commitment to a clearly defined and well executed strategy, robust business model and relentless focus on strong cash generation. This has helped Diploma develop into a successful and resilient business capable of delivering strong shareholder value on a consistent basis and I am confident that it will continue to do so for many years.

Results
Group revenues increased in 2014 by 7% to £305.8m (2013: £285.5m) despite the significant strengthening of UK sterling against most major currencies in which the Group operates. With ca.75% of the Group's revenues generated outside the UK, the £17.7m reduction in revenues from currency translation more than offset the contribution to revenue of £15.4m from acquisitions completed during the year.

On an underlying basis, which is after adjusting for acquisitions and for currency effects on translation, Group revenues increased by 8% with each of the Group's business Sectors reporting strong underlying growth during the year.

Adjusted operating margins remained robust at 18.5% (2013: 19.0%) and adjusted

Adjusted EPS growth

+20% p.a.

	pence
2014	36.1
2013	34.8
2012	33.1
2011	27.9
2010	18.9

TSR growth

+36% p.a.

	TSR index 2009 = 100
2014	469
2013	434
2012	306
2011	199
2010	171

Dividend growth

+17% p.a.

	pence
2014	17.0
2013	15.7
2012	14.4
2011	12.0
2010	9.0

operating profit increased by 4% to £56.7m (2013: £54.3m). Gross margins in the Canadian and Australian healthcare businesses were impacted by transactional currency effects, but these were partly mitigated by tight control of operating costs and the benefits arising from the Group's recent Investment for Growth programme which is now substantially complete.

Adjusted profit before tax increased by 3% to £56.2m (2013: £54.3m) and adjusted earnings per share, helped by a lower effective tax rate, increased by 4% to 36.1p (2013: 34.8p).

The Group generated strong free cash flow of £37.8m (2013: £31.6m), despite a larger investment in working capital, reflecting both much lower capital expenditure of £2.2m (2013: £4.6m) and a smaller cash contribution of £1.8m (2013: £4.7m) to the Group's Employee Benefit Trust.

With the acquisition environment improving, the Group invested £16.5m (2013: £2.2m) in acquisitions during the financial year. Shortly after the year end, the Group acquired 80% of TPD, which extends the Healthcare business into Ireland and the UK; this acquisition has taken the acquisition spend to ca.£26m in the 2014 calendar year.

At 30 September 2014 the Group's net cash funds increased by £2.0m to £21.3m after distributing £18.2m (2013: £17.4m) to shareholders during the year.

Dividends
The strong balance sheet and free cash flow, supported by a good set of results has led the Board to recommend an increase in the final dividend of 8% to 11.6p per share (2013: 10.7p). Subject to shareholder approval at the AGM, this dividend will be paid on 28 January 2015 to shareholders on the register at 28 November 2014.

The total dividend per share for the year will be 17.0p (2013: 15.7p) which represents an 8% increase on 2013. 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. Dividends have increased progressively in each of the last 15 years and represent a total of almost £100m of cash distributed to shareholders over ten years.

Governance
The Board and its Committees have worked effectively throughout the year, benefiting from a stable year, following a number of years of changes as we developed and refreshed the Board. The work of these Committees and the key achievements this year are set out in the Corporate Governance section of the Annual Report & Accounts.

I should like to thank all my colleagues on the Board, past and present, who have always been both supportive and challenging, as needed. Their wise counsel and experience has made a substantial contribution to the success of the Group.

Finally, I am delighted that in John Nicholas, the Company has a highly successful businessman with broad and relevant experience, who I am confident will chair the Group well on the next stage of its journey and to further success.

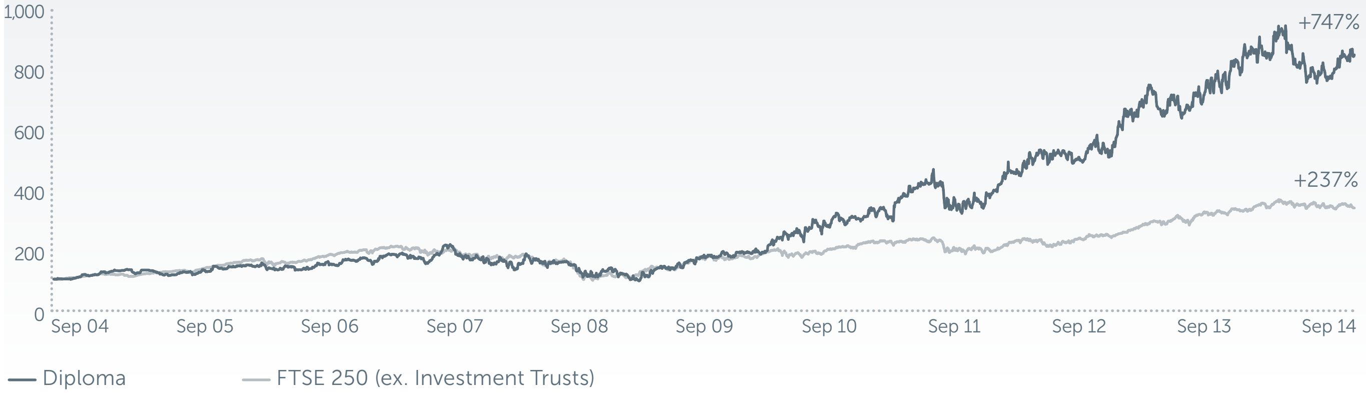
Employees
I have very much appreciated the consistently high levels of service, performance and hard work that our employees deliver year after year. I believe that this is largely due to our decentralised organisational structure which allows our employees to understand their responsibilities and gives them space to operate efficiently and effectively. This provides enormous strength to the Diploma businesses and helps explain the Group's sustained success. I wish to sincerely thank all our employees for their tremendous hard work and for all they have achieved during my period with the Company.

Outlook
The Group's performance this year has benefited from greater confidence in its principal markets with strong underlying revenue growth in each of the Group's Sectors. Given the strong comparatives and the uncertain macroeconomic backdrop, the Board expects growth to trend this year towards our target "GDP plus" rates.

The Group has a strong and proven business model, together with a good geographic spread of activities, strong free cash flow and balance sheet. With an improving acquisition environment and a good pipeline of opportunities, prospects for acquisition activity in 2015 are encouraging. This provides the Board with confidence that further progress will be made in the new financial year.

John Rennocks
Chairman
17 November 2014

10 years – TSR (rebased to 100)



Business Model

Our business model is designed to make 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 organic revenue growth, over the economic cycle, at a rate of 5–6% p.a. ("GDP plus" growth), 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.

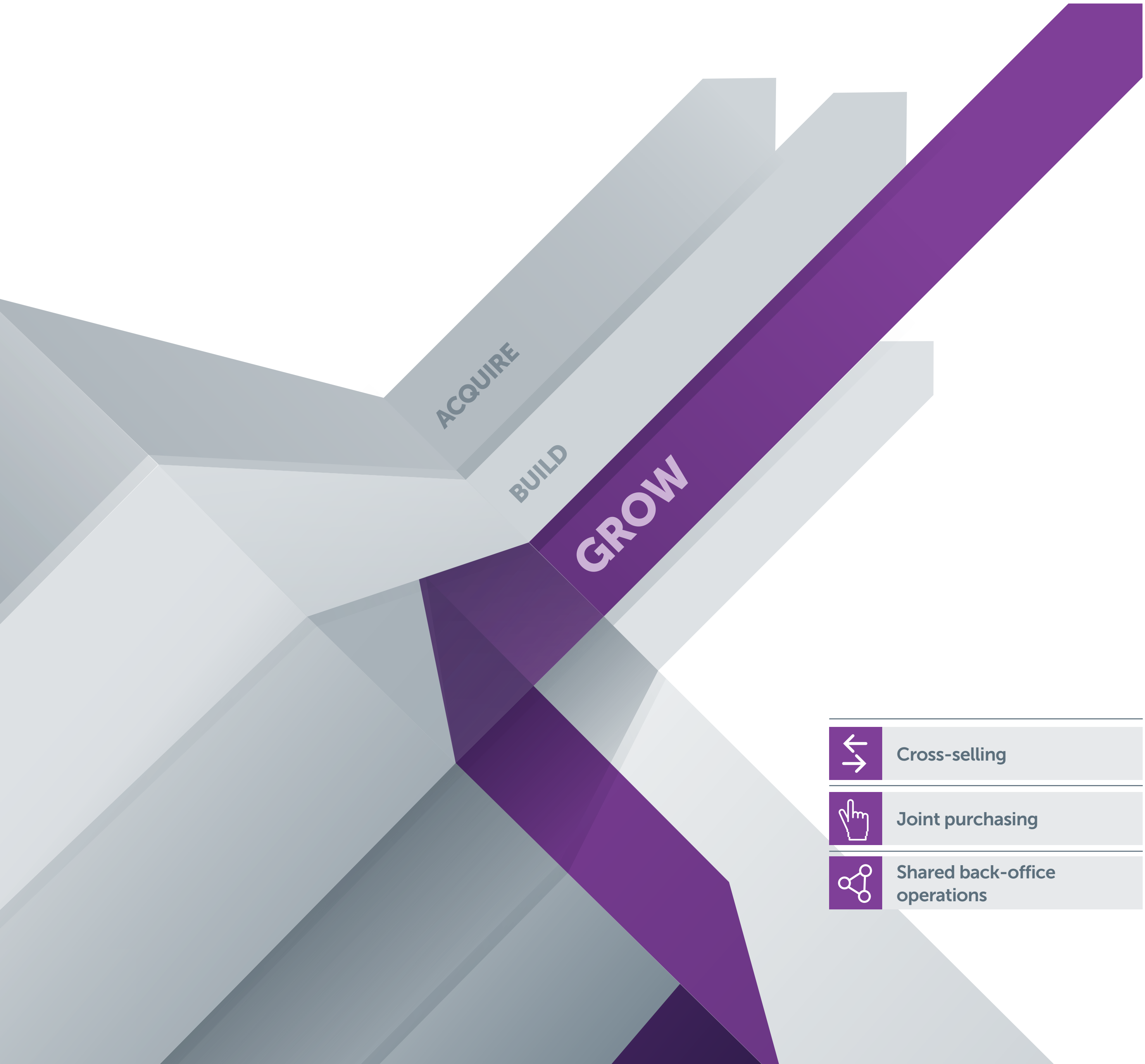
Agility and responsiveness

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.

Growth Strategy

The Group's "Acquire, Build, Grow" strategy is designed to deliver strong, double-digit growth.

A principal focus this year has been on the "Grow" phase of our strategy.



- Cross-selling
- Joint purchasing
- Shared back-office operations

Acquire

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

- **Fit with the Group's business model of essential products, solutions and values;**
- **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 IRR threshold of 13% to ensure 20%+ 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 companies 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 company to move to a new level of growth. The investment 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.

Except in the case of smaller, bolt-on acquisitions, the acquisitions will maintain their distinct sales and marketing identity and will be managed as independent business units. However, where there are opportunities for synergies with other Group businesses, these will be managed within larger business clusters.

Typically synergies come in the following areas:

- **Cross-selling between the businesses;**
- **Joint purchasing between the businesses;**
- **Shared back-office functions for finance and administration.**

THIS YEAR'S GROWTH

The Group invested £16.5m this year in acquisitions designed to build larger, broader based businesses in the Group's three Sectors and extend the Group's geographic coverage. These acquisitions comprised:

Life Sciences
- Chemzyme (Australia)
- DSL (20%) (Australia)

Seals
- Kentek (80%) (Finland, Russia and Baltic States)
- Ramsay (UK)
- AB Seals (UK)
- HPS (49%) (US)

Controls
- SFC (UK)
- Sacee (France)

5%

of Group revenues (ca.£20m on annualised basis) were contributed from businesses acquired in 2014

Objectives and Key Performance Indicators

Principal corporate objectives

Achieve double digit growth in adjusted EPS over the business cycle

Next level objectives

Generate stable "GDP plus" organic revenue growth over the business cycle

The businesses target organic revenue growth, over the economic cycle, at a rate of 5–6% p.a. ("GDP plus" growth), with higher growth rates achieved at the Group level through carefully selected value enhancing acquisitions.

Underlying revenue is after adjusting for the impact from acquisitions and divestments and for currency movements on the translation of overseas results.

Total revenue growth

+14%
p.a. compound

2014	£305.8m
2013	£285.5m
2012	£260.2m
2011	£230.6m
2010	£183.5m

Underlying revenue growth

+9%
p.a. average

2014	+8%
2013	+4%
2012	+6%
2011	+17%
2010	+11%

Maintain stable attractive margins

Adjusted operating margin is an important measure of the success of the businesses in achieving superior margins by offering strongly differentiated products and customer focused solutions, as well as by running efficient operations.

Adjusted operating margins

18–19%
of revenue

2014	18.5%
2013	19.0%
2012	20.3%
2011	19.6%
2010	17.5%

Generate TSR growth in the upper quartile of the FTSE 250

Deliver progressive dividend growth with two times dividend cover

More about our corporate objectives and KPIs on pages 11–12

Accelerate growth through carefully selected value enhancing acquisitions

To complement the Group's organic growth strategy, the Group has an ongoing acquisition programme, designed to accelerate growth and to facilitate entry into related strategic markets.

Acquisition spend

£16m p.a. average

2014	£16.5m
2013	£2.2m
2012	£22.3m
2011	£28.2m
2010	£11.0m

Generate consistently strong cash flow to fund growth strategy and dividends

Free cash flow is defined as the cash flow generated after tax, but before acquisitions and dividends. This measures the success of the Group and its businesses in turning profit into cash through the careful management of working capital and investments in fixed assets.

Free cash flow

£31m p.a. average

2014	£37.8m
2013	£31.6m
2012	£32.7m
2011	£25.0m
2010	£29.8m

Working capital % of revenue

16–17% average

2014	17.2%
2013	16.7%
2012	16.5%
2011	16.1%
2010	15.4%

Create value by consistently exceeding 20% ROATCE

Return on adjusted trading capital employed ("ROATCE") is defined as adjusted operating profit as a percentage of adjusted trading capital employed ("TCE"). Adjusted TCE excludes net cash and non-operating assets and liabilities, but includes all goodwill and acquired intangible assets.

ROATCE

25% average

2014	25.8%
2013	25.8%
2012	26.6%
2011	25.4%
2010	22.1%

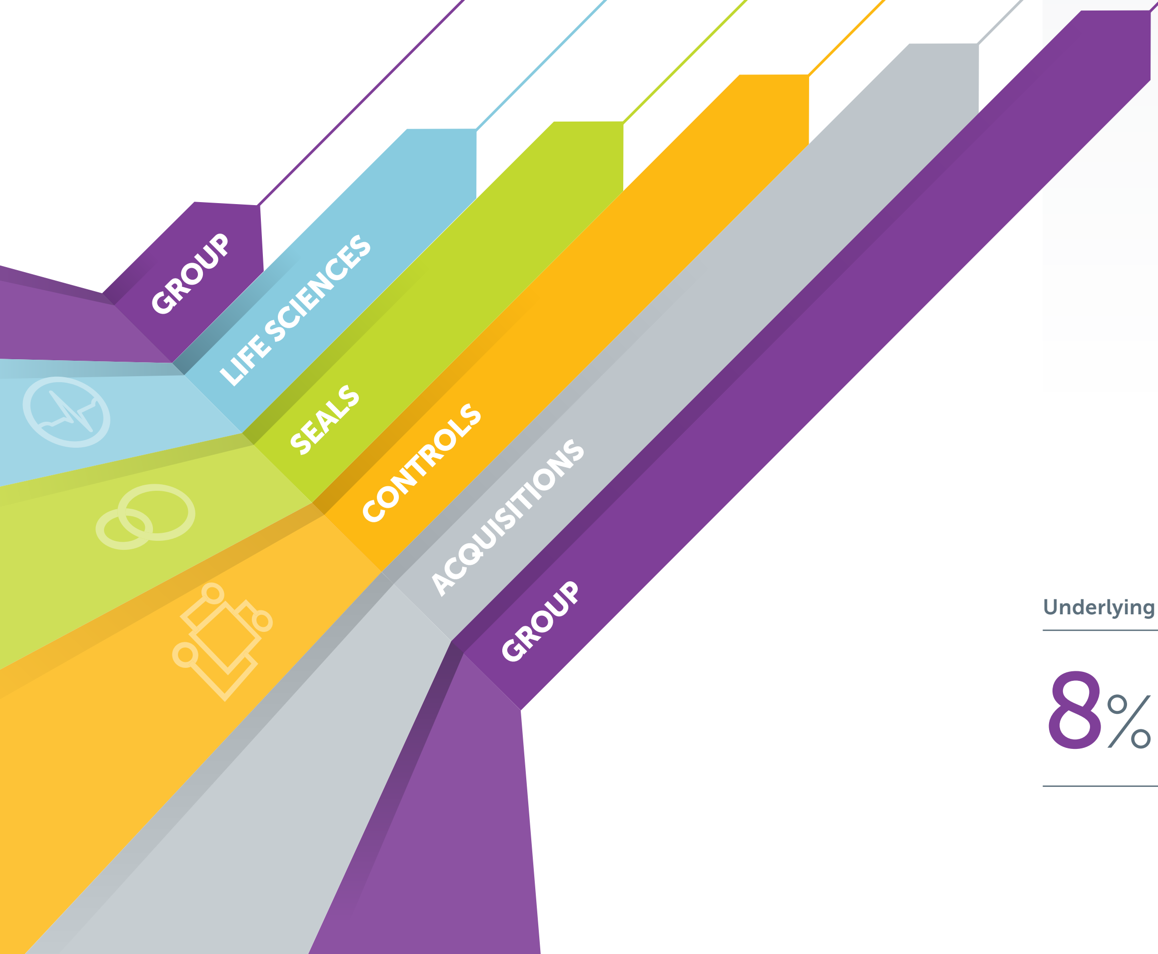
Chief Executive's Review

"Another year of strong underlying growth with an improving acquisition environment"

Bruce Thompson
Chief Executive Officer

Year in review

- INVESTMENT FOR GROWTH PROGRAMME HAS ESTABLISHED FIRM FOUNDATION FOR GROWTH
- STRONG CONSUMABLE REVENUES; 9% UNDERLYING GROWTH
- GOOD PROGRESS IN AFTERMARKET AND INDUSTRIAL OEMS; 7% UNDERLYING GROWTH
- GOOD DEMAND ACROSS MARKET SECTORS; 8% UNDERLYING GROWTH
- MORE POSITIVE ACQUISITION ENVIRONMENT WITH IMPROVED PIPELINE
- REPORTED RESULTS HELD BACK BY TRANSLATIONAL IMPACT OF STRONG UK STERLING



Underlying revenue growth

8% Strong performance across all three Sectors

In 2014, the Group has delivered underlying revenue growth of 8% (after adjusting for acquisitions and currency effects) with a strong performance across all three Sectors. Adjusted operating margins remained robust at 18.5% of revenue. In an improving environment for acquisitions, £16.5m was invested in acquisitions which contributed £15.4m to revenues this year. This addition to revenues was offset by the adverse translation effect of the stronger UK sterling which reduced revenues by £17.7m. Free cash flow increased by 20% to £37.8m and return on adjusted trading capital employed ("ROATCE") was maintained at 25.8%.

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

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

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

Adjusted operating margin

18.5%

Performance against objectives and KPIs
The Group's principal corporate objectives relate to growth in adjusted earnings per share ("EPS") and total shareholder return ("TSR"). Growth in the year in adjusted EPS has been 4% and growth in TSR has been 8%. Over a five year period, compound growth rates for adjusted EPS and TSR have been 20% p.a. and 36% p.a. respectively.

Underpinning the principal corporate objectives are a set of further objectives, with related key performance indicators ("KPIs") which are used to measure performance at the Group level, but also to drill down through the operating businesses. The first of these next level objectives is to generate stable "GDP plus" levels of *underlying revenue growth* over the business cycle.

This year, after adjusting for translational currency effects and acquisitions, the Group increased revenues by 8% on an underlying basis, with strong performance across all three Sectors. Life Sciences benefited from strong consumable revenues across the businesses, offsetting weaker capital equipment and service revenues and delivered 9% underlying revenue growth. In Seals, underlying revenues grew by 7%, reflecting a more favourable performance in the Aftermarket businesses and continuing good growth in the Industrial OEM businesses. Controls returned to growth this year with good demand across its market sectors and particularly strong performances from the Civil Aerospace, Motorsport and Energy markets; underlying revenue growth of 8% was achieved.

The objective for *adjusted operating margins* is to maintain stable attractive margins which reflect the focus on specialised segments, strongly differentiated products and customer focused solutions, combined with efficiently run operations. This year, adjusted operating margins were 18.5% which is comfortably within the five year average range of 18–19%. Gross margins in the Group's Healthcare businesses came under increasing pressure during the year, from the transactional currency effects of the strong depreciation of the Canadian and Australian dollars. However, the impact on Group operating margins was limited by tight control of operating costs in the Healthcare businesses. More broadly, the Group's Investment for Growth programme, started in 2012 and now nearing completion, has started to deliver the benefits we had expected. As revenues have increased, operational leverage has reduced operating costs as a percentage of revenue and these benefits have offset the impact of acquisitions joining the Group with lower initial operating margins.

To achieve the Group's objective of strong double-digit growth, *acquisition spend* at the level of ca.£25m p.a. is targeted. The level of spend this year of £16.5m is below this target level but is close to the five year average of ca.£16m p.a. and is well ahead of the prior year spend of only £2m. After the financial year end in early October 2014, a further acquisition was completed of 80% of Technopath Distribution ("TPD") and this has taken the acquisition spend to ca.£26m in the 2014 calendar year.

The Group continues to focus strongly on *free cash flow*, which funds the growth strategy and allows the Company to provide healthy dividends to shareholders. In 2014, free cash flow was £37.8m, compared with a five year average of £31m p.a. and was equivalent to a conversion rate of over 90% of adjusted after tax earnings. Now that the Investment for Growth programme is approaching completion, capital expenditure is trending back to more normal levels and the principal determinant of free cash flow conversion is now the

"Free cash flow in the year was £37.8m, a conversion rate of over 90%"

Chief Executive's Review continued

effective management of working capital. The KPI used to measure and monitor this performance is *working capital as a percentage of revenue*; in 2014 this increased to 17.2% compared with both the target and the five year average level of 16–17%.

ROATCE is the final indicator of the overall performance of the Group and very importantly of its success in creating value for shareholders. ROATCE is measured as the pre-tax return on total Group investment excluding net cash, but including all goodwill and acquired intangible assets. ROATCE has exceeded the 20% target in each of the last five years and this year was 25.8%.

Acquisitions

Acquisitions are an integral part of the Group's strategy, designed to accelerate growth and to facilitate entry into related strategic markets. Despite sustained and increasing resources focused on identifying and completing value-enhancing acquisitions, acquisition spend does ebb and flow over time. The acquisition environment has improved this year after a period when the uncertainty over future economic prospects had made vendors very cautious, resulting in lengthening transaction processes and delayed completions.

ROATCE

25.8%

During the year, a number of acquisitions have been completed which are natural extensions of the Group's existing businesses and which have extended the scope of the businesses into new products, market segments and geographies.

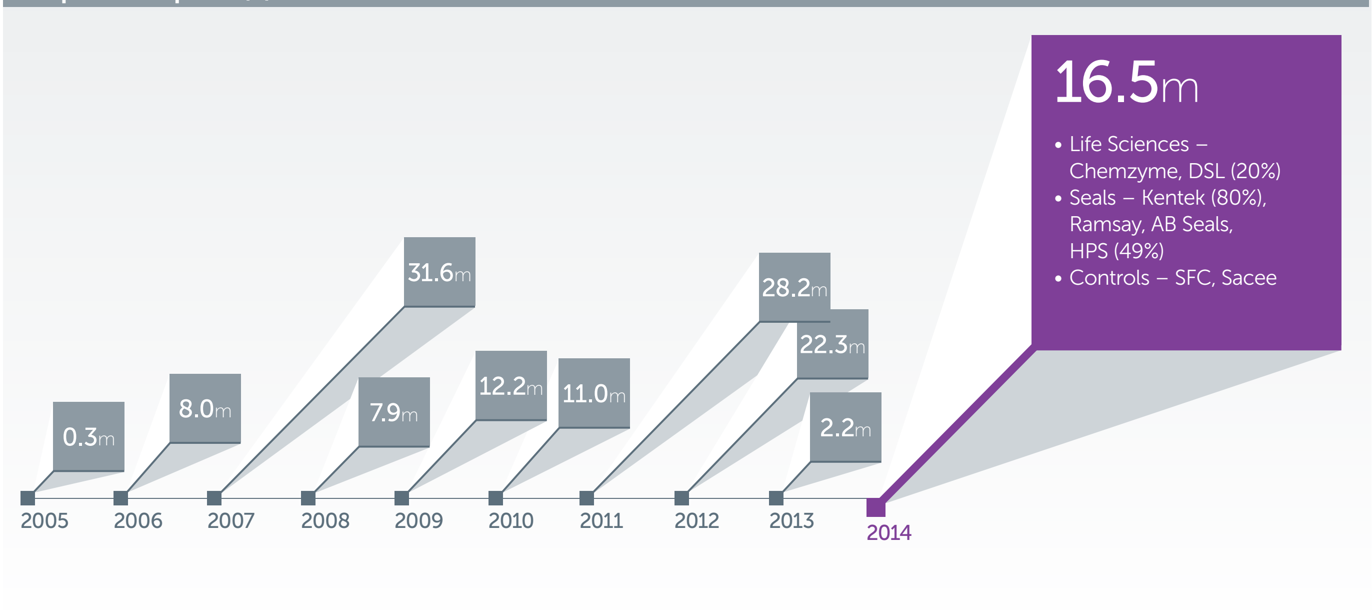
In Life Sciences, DHG extended its business in Australia with the acquisition of Chemzyme, which has now been integrated into DHG's principal operations in Melbourne. During the year DHG also acquired the remaining 20% minority shareholdings in DSL and shortly after the year end, acquired 80% of TPD, an established supplier to the Biotechnology, Clinical Laboratory and Medical markets in Ireland and the UK. The acquisition of TPD represents an important first step in extending the scope of DHG's business into the markets of Ireland and the UK, as well as adding important new products and suppliers.

In Seals, the Group acquired 80% of Kentek, a specialised filter distributor which adds a new product line and extends the reach of the Seals activities into the new markets of Finland, Russia and the Baltic States. During the year, two smaller acquisitions were completed in the UK, AB Seals and Ramsay Services, which will be managed by FPE Seals and M Seals respectively. RT Dygert also acquired the remaining 49% in the HPS Industrial OEM seal business in Seattle.

In Controls, the fastener business was strengthened through the acquisition of SFC, a UK fastener distributor which has a strong fit with Clarendon and brings specialist technical and design skills as well as added value assembly expertise. During the year, Filcon also acquired the goodwill and assets of Sacee, a supplier of specialist connectors to the Satellite sector in France; Sacee's operations have been integrated into Filcon in Munich.

With an improving acquisition environment, a good pipeline of opportunities and additional corporate development resources in place, prospects for acquisition activity in 2015 are encouraging.

Acquisition spend (£)



Sector Review

LIFE SCIENCES

% of Group revenue

30%

Geography[1]

67% Canada
19% Europe
14% Rest of World

Customers

81% Clinical
12% Utilities
4% Chemical & Petrochemical
2% Life Sciences Research
1% Other Life Sciences

Products

69% Consumables
23% Instrumentation
8% Service

Employees

334

Principle businesses

Diploma Healthcare Group (DHG)
a1-group

SEALS

% of Group revenue

39%

Geography[1]

68% North America
24% Europe
8% Rest of World

Customers

40% Industrial OEMs
31% Heavy Construction
19% Other Industrial
5% Industrial Aftermarket
3% Dump & Refuse Trucks
2% Logging & Agriculture

Products

46% Seals & Seal Kits
14% O-rings
11% Filters
10% Attachment Kits
10% Cylinders & Other
9% Gaskets

Employees

604

Principal businesses

Hercules Fluid Power Group (HFPG)
FPE Seals
Kentek
M Seals

CONTROLS

% of Group revenue

31%

Geography[1]

58% UK
34% Continental Europe
8% Rest of World

Customers

27% Aerospace & Defence
27% Industrial
19% Food & Beverage
15% Motorsport
8% Energy & Utilities
4% Medical & Scientific

Products

41% Wire & Cable
15% Fasteners
15% Equipment & Components
12% Control Devices
12% Connectors
5% Other Controls

Employees

312

Principal businesses

IS Group
Specialty Fasteners
Filcon
Hawco

1 By destination.

LIFE SCIENCES

Extending our reach

Life Sciences revenues increased by 9% on an underlying basis, with stronger consumable revenues offsetting weaker capital equipment and service revenues

+9%

Increase in underlying revenues, after adjusting for currency and acquisitions

Building on our growth track record

In Healthcare, increase share in specialised segments of growing Canadian market

Extend into other medical disciplines with new products and technologies

Build critical mass in Australian market and then other geographies

Continue to develop product and geographic spread of Environmental business

£12.7m

Acquisitions in the year:
- Chemzyme (Australia)
- DSL (20%) (Australia)
- TPD (80%) (Ireland and UK) – after year end

21.6%

Adjusted operating margin

% of Group revenue

30%

	2014	2013
Revenue	£91.4m	£93.2m
Adjusted operating profit	£19.7m	£20.9m
Adjusted operating margin	21.6%	22.4%
Free cash flow	£14.9m	£14.1m

- **Underlying Sector revenue growth of 9%**
- **In DHG Canada, strong consumable revenues offset weaker capital equipment and service revenues**
- **ERP project well advanced – Somagen completed, Vantage in process and AMT to follow in 2015**
- **DHG Australia building critical mass under single leadership and with consolidated operations; Chemzyme acquired and integrated**
- **Acquisition of TPD after year end extends DHG into Ireland and the UK and adds new products and suppliers**
- **Strong growth in Environmental businesses with stable operating margins**

Performance in the year

Reported revenues of the Life Sciences businesses decreased by 2% because of the translational currency impact from the significant weakening in the Canadian and Australian dollars relative to UK sterling. On a constant currency basis, underlying revenues increased by 9%. Similarly on a reported basis, adjusted operating profit decreased by 6% in UK sterling terms, but increased by 8% on a constant currency basis.

Gross margins in the Healthcare businesses were also significantly impacted on a transactional basis by the strong depreciation of the Canadian and Australian dollars against the US dollar and the Euro. These currency effects were partly mitigated by an increased proportion of higher margin consumable product revenues this year, by price concessions negotiated with suppliers and by tight management of operating costs. There were also benefits starting to accrue from prior year investments and adjusted operating margins decreased by only 80bps to 21.6%.

Free cash flow increased by 6% to £14.9m, reflecting a combination of lower capital expenditure and tax payments, offset in part by investment in higher working capital.

Strategy development

The DHG group of **Healthcare** businesses account for ca.80% of Life Sciences revenues. The DHG business 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 (ca.70%) are secured under multi-year customer contracts.

In Canada, the three principal businesses made good progress during the year in expanding the growth potential of their businesses with new products and new suppliers. Somagen revenues were boosted by the supply of new testing kits used in the roll-out of colorectal cancer screening programmes across three Provinces and made good progress with new best-in-class products in HbA1c diabetes testing and Autoimmunity. AMT continued to increase revenues in its new minimally invasive ("MI") Surgery division, consolidating its position in the supply of specialised surgical instruments used in laparoscopic and other MI Surgery procedures. Vantage launched its new range of endoscopes offering significant benefits in terms of image quality and handling ability.

There remain significant opportunities for DHG in Canada to increase its share in its core specialised segments of Clinical Diagnostics, Electrosurgery, MI Surgery and GI Endoscopy with new products and suppliers. DHG is also actively seeking to extend its business, either organically or by acquisition, into other specialised medical disciplines where its business model can be deployed successfully.

In Australia, BGS and DSL have grown revenues strongly and have now been brought together under a newly formed leadership group and with operations and back office systems consolidated into a single facility in Melbourne. Now that DHG in Australia has established a firm base with sufficient critical mass, it is now looking for further opportunities to grow by adding bolt-on acquisitions. During the year, DHG acquired the assets and goodwill of Chemzyme, a small distributor supplying products to the sterilising departments in hospitals across Australia and New Zealand. Chemzyme has been integrated into the Melbourne operations and has extended the scope of the DHG business in Australia with a supplier which also is a key supplier to Vantage in Canada. DHG also during the year acquired the remaining 20% minority shareholdings in DSL.

Shortly after the year end, DHG acquired 80% of TPD, an established supplier to the Biotechnology, Clinical Laboratory and Medical markets in Ireland and the UK. The acquisition of TPD represents an important first step in extending the scope of DHG's business into the markets of Ireland and the UK as well as adding important new products and suppliers. Once DHG has firmly established its position in these new markets, opportunities will be explored in further new geographic territories.

The a1-group of **Environmental** businesses accounts for ca.20% of Sector revenues and supplies a range of products used in Environmental testing and Health & Safety applications. The a1-group has been successful in recent years by maintaining a sharp focus on attractive niche market segments and this year has delivered strong growth with stable operating margins. While maintaining its focus, the a1-group is also looking for carefully selected bolt-on acquisitions to introduce new growth opportunities.

SEALS

International expansion

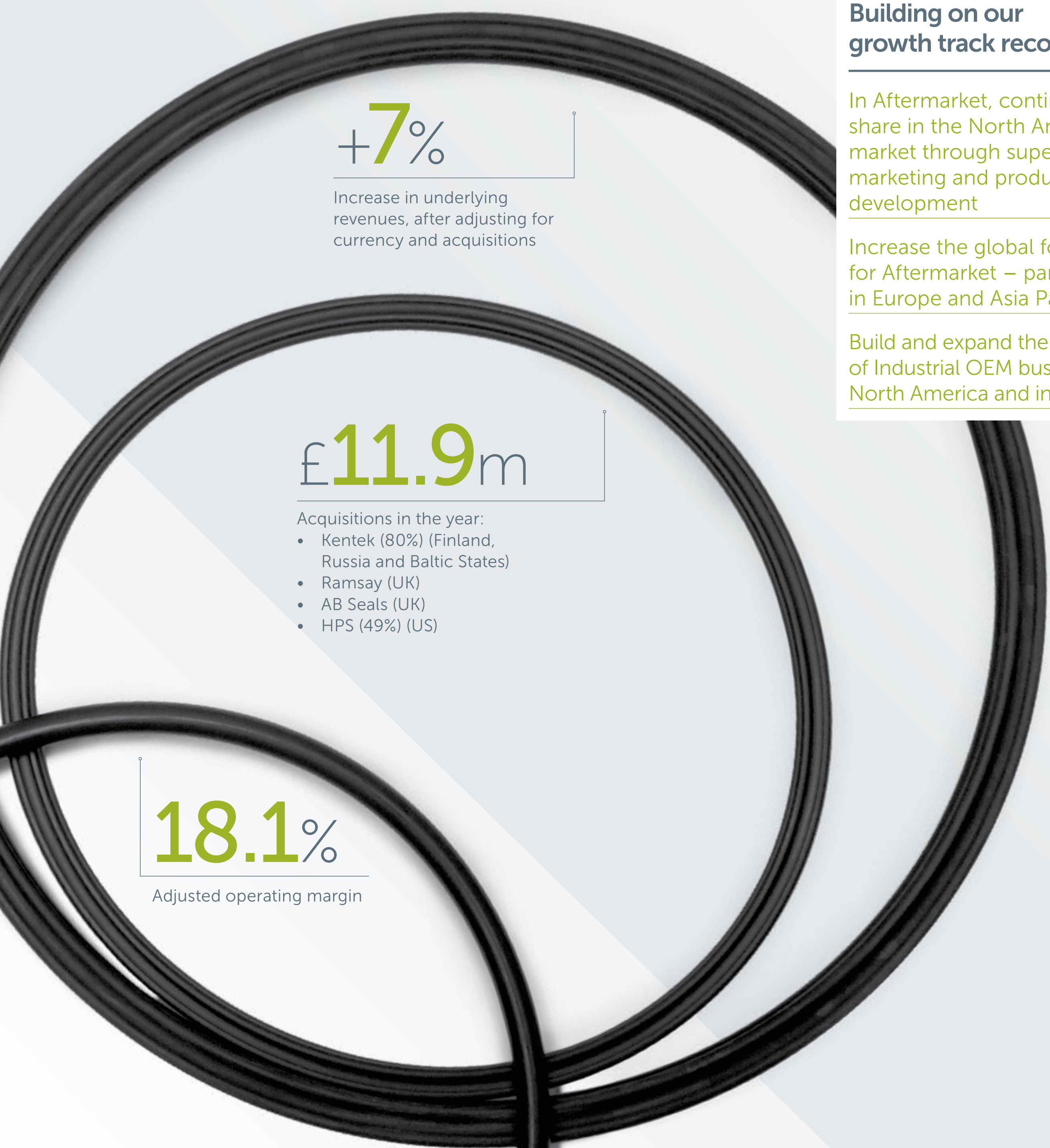
Seals revenues increased by 7% on an underlying basis with a strong performance in Industrial OEMs and good second half recovery in Aftermarket, after severe winter in the US

Building on our growth track record

In Aftermarket, continue to gain share in the North American market through superior marketing and product development

Increase the global footprint for Aftermarket – particularly in Europe and Asia Pacific

Build and expand the group of Industrial OEM businesses in North America and internationally



+7%

Increase in underlying revenues, after adjusting for currency and acquisitions

£11.9m

Acquisitions in the year:
- Kentek (80%) (Finland, Russia and Baltic States)
- Ramsay (UK)
- AB Seals (UK)
- HPS (49%) (US)

18.1%

Adjusted operating margin

% of Group revenue

39%

	2014	2013
Revenue	£119.8m	£106.1m
Adjusted operating profit	£21.7m	£19.5m
Adjusted operating margin	18.1%	18.4%
Free cash flow	£16.4m	£15.9m

- **Underlying Sector revenue growth of 7%**
- **Good growth in HFPG Aftermarket Seals business in North America despite disruption from severe winter weather**
- **Unified European Aftermarket Seals group taking shape, centred on FPE Seals – AB Seals added during the year**
- **Kentek acquisition brings new geographic markets and adds filter products**
- **Continuing strong growth in the Industrial OEM Seals businesses in the US and Europe**
- **M Seals acquired Ramsay Services in the UK and All Seals is opening new branch operation in Houston, Texas**

Performance in the year

The Seals businesses increased revenues by 13%, which included part year contributions from Kentek, acquired in January 2014, and two smaller bolt-on acquisitions in the UK. After adjusting for the additional contribution from these acquisitions and for the impact from currency translation, underlying revenues increased by 7%. The acquisition of Kentek and the continued development of the FPE Seals and M Seals businesses, through organic growth and bolt-on acquisitions, have increased the European region's share of total Seals revenues to ca.25% in 2014.

Across the Seals businesses, gross margins continued to be resilient, underpinned by essential product availability and added value technical service. Operating margins in the HFPG and FPE Seals businesses improved as they benefited from prior year investment in people, facilities and equipment. However, with Kentek joining the Group with lower initial operating margins, adjusted operating margins reduced by 30bps to 18.1%.

Free cash flow increased by £0.5m to £16.4m, as capital expenditure decreased, but increased working capital reduced the contribution from higher operating profits.

Strategy development

The **Aftermarket** Seals businesses account for ca.60% of Sector revenues and 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 and compared to the OEM dealer network, offer higher levels of customer service and more competitive pricing.

In North America, HFPG continues to penetrate the market through its superior marketing, its relentless sales approach and product development to extend the product line. HFPG is always looking to improve its service to customers and during the year, the level of sales processed online increased by 26% and now accounts for ca.20% of US revenues. Capacity is also expanding in the seal machining centres which respond to the demand from repair shop customers for hard-to-find and outsized seals on a 24 hour basis.

Outside North America, the Group continues to target an increased global footprint for Aftermarket, particularly in Europe and Asia Pacific. During the year, plans to create a more substantial, unified European Aftermarket Seals group continued to take shape, centred on FPE Seals and with operations in the UK and the Netherlands. FPE Seals added AB Seals as a bolt-on to its operations in the UK, strengthening coverage in the important South East region. The Group also acquired 80% of Kentek, a specialised distributor of filters and related products, used in heavy mobile machinery and industrial equipment applications. Kentek extends the reach of the Seals activities into the new markets of Finland, Russia and the Baltic States, as well as adding filters to the Group's product line.

The **Industrial OEM** businesses account for ca.40% of Seals revenues and supply seals, O-rings and custom moulded and machined parts used in a range of specialised industrial equipment. The businesses work closely with their Industrial OEM customers to specify the most appropriate sealing material and design for the customer's application and the most suitable seal manufacturer from which to source the parts. Once the part is designed in to the application, the businesses provide the necessary logistical and technical support, in most cases for the lifetime of the OEM's product.

The Group's growth strategy in the Industrial OEM Seal sector is to build and expand a group of businesses in North America and internationally. During the year, RT Dygert benefited from its investment in new elastomer compounds to penetrate new technically demanding applications. RT Dygert also acquired the remaining 49% in the HPS seal business in Seattle. Both All Seals and J Royal saw good gains in existing and new market segments with the introduction of new higher specification products. All Seals also benefited from its investment in a water-jet gasket cutting machine and in November, will open a branch operation in Houston, Texas. In Europe, M Seals acquired Ramsay Seals, a specialist distributor of O-rings which will give M Seals an entry into the Industrial OEM seal business in the UK, as well as adding strengths in the Aerospace and Oil & Gas sectors.

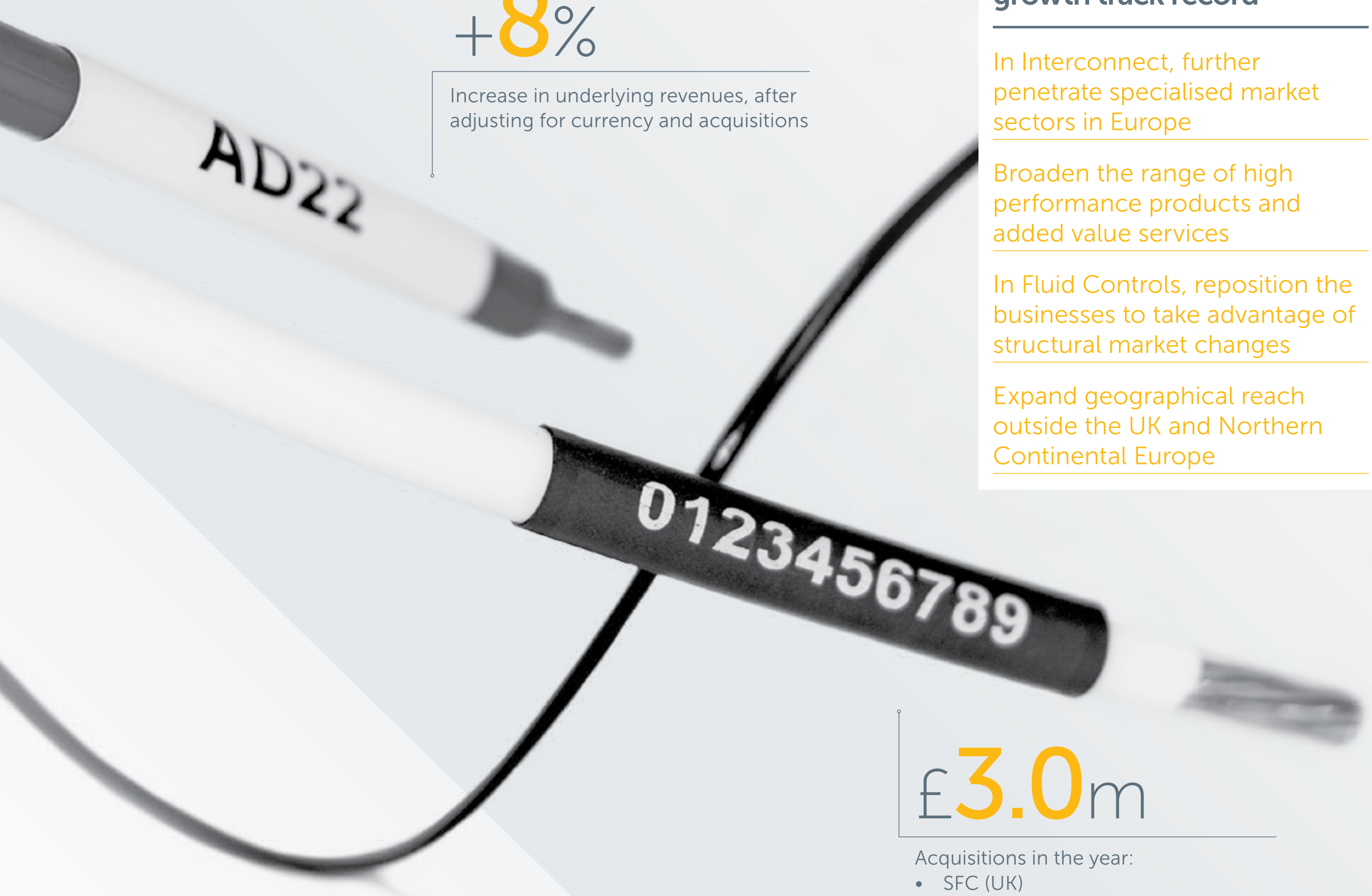
CONTROLS

Identifying markets

Controls revenues increased by 8% on an underlying basis with improved markets in the UK and Germany, particularly Civil Aerospace, Energy and Motorsport

Building on our growth track record

- In Interconnect, further penetrate specialised market sectors in Europe
- Broaden the range of high performance products and added value services
- In Fluid Controls, reposition the businesses to take advantage of structural market changes
- Expand geographical reach outside the UK and Northern Continental Europe



+8%

Increase in underlying revenues, after adjusting for currency and acquisitions

£3.0m

Acquisitions in the year:
- SFC (UK)
- Sacee (France)

16.2%

Adjusted operating margin

% of Group revenue

31%

	2014	2013
Revenue	£94.6m	£86.2m
Adjusted operating profit	£15.3m	£13.9m
Adjusted operating margin	16.2%	16.1%
Free cash flow	£11.4m	£10.8m

- **Underlying Sector revenue growth of 8%**
- **Strong growth in Interconnect, driven by improved markets in the UK and Germany, particularly Civil Aerospace, Energy and Motorsport**
- **Acquisition of SFC strengthened the fasteners business and added design skills and added-value assembly expertise**
- **Sacee acquisition extended Filcon's business into Satellite sector in France**
- **In Fluid Controls, significant gains made by Hawco in Food & Beverage sector**
- **Relocation of Hawco's offices, consolidation of warehouse facilities and extension of new ERP system into Abbeychart**

Performance in the year

The Controls businesses increased revenues by 10%, including part year contributions from SFC, a specialty fastener company acquired in June 2014 and Sacee, a small connector distributor acquired in October 2013. After adjusting for the contribution from these acquisitions and for the impact of currency translation, underlying revenues increased by 8%.

Adjusted operating profits increased by 10% to £15.3m and adjusted operating margins were held steady at 16.2%. Overall gross margins in the Controls businesses remained resilient with their focus on specialised markets and added value opportunities. The benefits from investment programmes completed last year, enabled the businesses to gain some operational leverage which offset the impact from the lower initial operating margin of SFC.

Free cash flow increased by £0.6m to £11.4m, with reduced capital expenditure, but with working capital increasing to take advantage of opportunities within existing markets.

Strategy development

The **Interconnect** businesses account for 70% of Controls 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, in industries including Aerospace, Defence, Motorsport, Energy and Medical as well as in other specialised Industrial applications. The products are generally used in refurbishment, upgrade and maintenance programmes for equipment in service and are supplied to major new build programmes only where smaller quantities are required from stock. The businesses act as a single source for a wide range of products, have strong technical knowledge to specify products for customer applications and offer ex-stock availability and a full range of added value services.

A key element of the growth strategy within Interconnect is to broaden the range of high performance products and added value services offered. As part of this strategy, a grouping of specialty fastener businesses is being built and this group was strengthened through the acquisition of SFC, a UK based distributor of fasteners and ancillary products to the Aerospace, Industrial and Motorsport sectors. SFC has a strong fit with Clarendon and brings specialist technical and design skills as well as added value assembly expertise. As the group's supply of fasteners to the premium aircraft seating industry continues to grow strongly, Clarendon is extending production line-side support to key customers and exploiting further opportunities to export to sub-contract manufacturers.

Another important element of the growth strategy is to further penetrate specialised market sectors in Europe. During the year, Filcon acquired the goodwill and assets of Sacee, a supplier of specialist connectors to the Satellite sector in France; Sacee's operations have been successfully integrated into Filcon in Munich. In the Energy market, following its acquisition of Rayquick in late 2012, IS-Sommer was appointed by its key energy products supplier as one of only two master distributors in Germany.

The **Fluid Controls** businesses account for 30% of revenues and supply a range of fluid control products used broadly across the Food and Beverage industry. Products are used in a range of applications including food retailing and transportation, catering equipment, vending machines, coffee brewing, pure water and water cooling systems.

Hawco has had to respond to significant structural changes in its markets and now is seeing the benefits of its repositioning and developmental activities. The trend away from major out-of-town food retail stores and towards convenience stores initially dampened demand for Hawco's equipment, but Hawco is now having good success in both the UK and Europe with its range of scroll compressors which offer a smaller footprint and greater efficiency. Hawco is also seeing growing demand for refrigeration units used in transport applications reflecting the increased use of home shopping and delivery. Sales into the Brewery sector have also been buoyed by the introduction of the scroll compressors and other improved products designed to provide "at source" cooling for smaller outlets such as cafes and bars. The Abbeychart business model and resources applied to the coffee and catering segments are also being reshaped to match changes in end-user tastes and to focus on growth segments where technical expertise can add value. During the year, Hawco's offices were relocated, warehouse facilities were consolidated and the new Hawco ERP system was extended into Abbeychart.

Geographically, the Controls businesses are still very concentrated in Northern Europe and in particular in the UK and Germany, where ca.80% of revenues are generated. The Group continues to look for new growth opportunities to expand into other geographic territories outside of Northern Europe, most likely through acquisitions which share the same specialised business model and stable financial characteristics.

Directors and Advisors

John Rennocks[1,3]
Chairman

Appointed:
Joined the Board in July 2002 and appointed Chairman in January 2004.

Skills and experience:
John is a Chartered Accountant with over 41 years of experience in commerce and industry, including nearly 20 years as the Finance Director of FTSE 100 companies. He has been a non-Executive Director of many companies, including as Chairman of six other public or private companies across several industrial or support service sectors.

External appointments:
John is currently non-Executive Director of Greenko Group PLC, Chairman of Bluefield Solar Income Fund Ltd and Deputy Chairman of Inmarsat 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.

Marie-Louise Clayton[1,2,3]
Non-Executive Director

Appointed:
Joined the Board in November 2012 and appointed Chairman, Audit Committee March 2013.

Skills and experience:
Marie-Louise is a Chartered Certified Accountant with some 30 years' experience in commerce and industry, who has held senior positions in Alstom (formerly, Alsthom GEC) and was previously Group Finance Director of Venture Production PLC. She has also been a non-Executive Director of Forth Ports PLC and Ocean Rig ASA.

External appointments:
Marie-Louise is Chairman of the Audit Committee and a non-Executive Director of Zotefoams plc. Marie-Louise is also a non-Executive Director of Independent Oil and Gas plc and of two private companies.

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 multi-national environment and on a number of large corporate transactions. Nigel qualified as a Chartered Accountant with Price Waterhouse, London.

External appointments:
None.

John Nicholas[1,2,3]
Senior Independent Non-Executive Director

Appointed:
Joined the Board in June 2013 and appointed Chairman, Remuneration Committee in July 2013.

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. John is also a member of the Financial Reporting Review Panel.

Iain Henderson
Chief Operating Officer

Appointed:
Joined the Board as a Director in 1998 and appointed Chief Operating Officer in 2005.

Skills and experience:
Iain qualified as a Chartered Management Accountant and began his career in the food industry, progressing to be an operations general manager with H J Heinz. Since 1988, Iain has specialised in the acquisition and development of small to medium sized enterprises within group structures. This was firstly within the privately owned Bricom MBO, where he ran ANC Holdings and from 1994 in a public company environment as a Director of Glenchewton plc.

External appointments:
None.

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

Appointed:
Joined the Board in June 2013.

Skills and experience:
Charles is Head of UK Advisory and Managing Director in HSBC's global banking business. 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.

Auditor
Deloitte LLP
2 New Street Square
London EC4A 3BZ

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

Bankers
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1 Churchill Place
London E14 5HP

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

Investment Bankers
Lazard
50 Stratton Street
London W1J 8LL

Corporate Stockbrokers
Numis Securities
10 Paternoster Square
London EC4M 7LT

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

Five Year Record

Year ended 30 September	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Revenue	**305.8**	285.5	260.2	230.6	183.5
Adjusted operating profit	**56.7**	54.3	52.8	45.2	32.1
Adjusted profit before tax	**56.2**	54.3	52.6	44.9	32.2
Fixed assets	**13.9**	14.7	13.0	11.4	11.7
Working capital	**54.2**	47.8	44.4	37.1	28.2
Goodwill and intangible assets	**108.8**	105.2	112.0	101.7	90.0
Investment	**0.7**	0.7	0.7	–	–
Reported trading capital employed	**177.6**	168.4	170.1	150.2	129.9
Net cash funds	**21.3**	19.3	7.9	12.2	30.1
Other assets/(liabilities), net	**(11.6)**	(9.4)	(10.8)	(10.5)	(20.8)
Net assets	**187.3**	178.3	167.2	151.9	139.2
Cash flow from operating activities	**55.0**	55.9	50.2	40.3	34.3
Free cash flow	**37.8**	31.6	32.7	25.0	29.8
Acquisition expenditure	**(16.5)**	(2.2)	(22.3)	(28.2)	(11.0)
	Pence	Pence	Pence	Pence	Pence
Adjusted earnings per share	**36.1**	34.8	33.1	27.9	18.9
Dividends per share	**17.0**	15.7	14.4	12.0	9.0
Net assets per share	**165.4**	157.5	147.7	145.4	122.9
	%	%	%	%	%
Adjusted operating margin	**18.5**	19.0	20.3	19.6	17.5
Working capital as % of revenue	**17.2**	16.7	16.5	16.1	15.4
Return on adjusted trading capital employed (ROATCE)	**25.8**	25.8	26.6	25.4	22.1

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 and Shareholder Information

Announcements (provisional dates):

First Quarter Statement released	21 January 2015
Annual General Meeting (2014)	21 January 2015
Half Year Results announced	11 May 2015
Third Quarter Statement released	29 July 2015
Preliminary Results announced	16 November 2015
Annual Report posted to shareholders	4 December 2015
Annual General Meeting (2015)	20 January 2016

Dividends (provisional dates):

Interim announced	11 May 2015
Paid	17 June 2015
Final announced	16 November 2015
Paid (if approved)	27 January 2016

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

For more information

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

www.diplomaplc.com

Our website is fully responsive to access your information on the go.

Access our financial results and presentations.

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

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