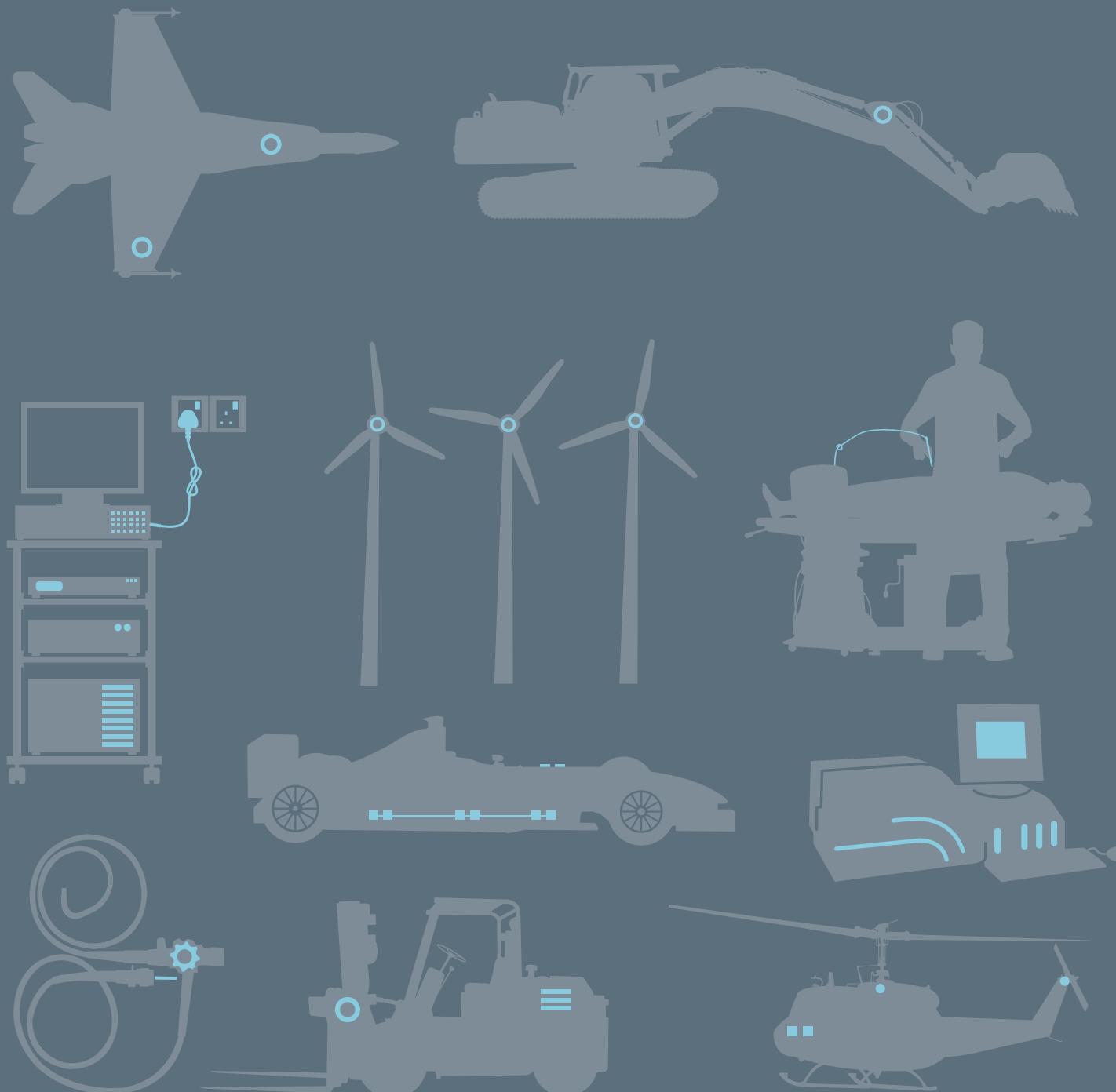


Essential to our customers



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, 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.

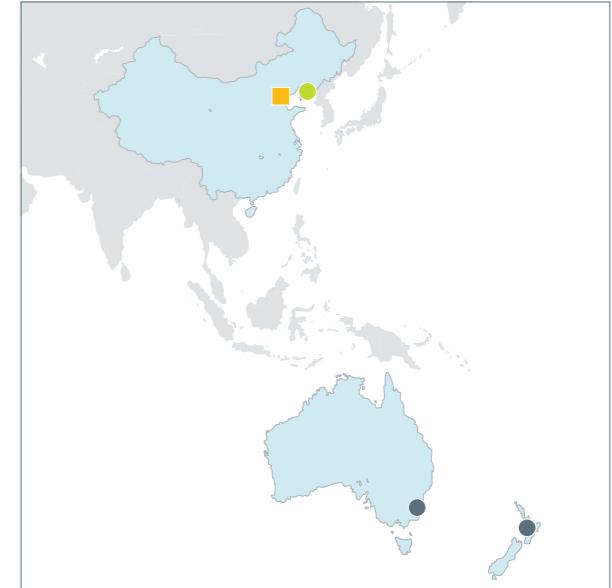
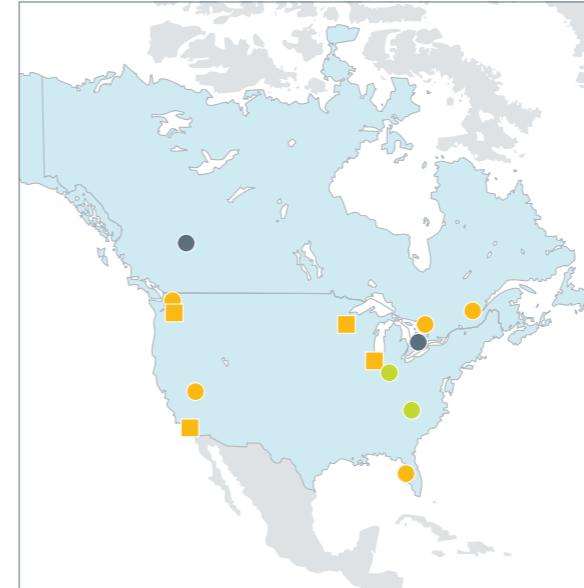
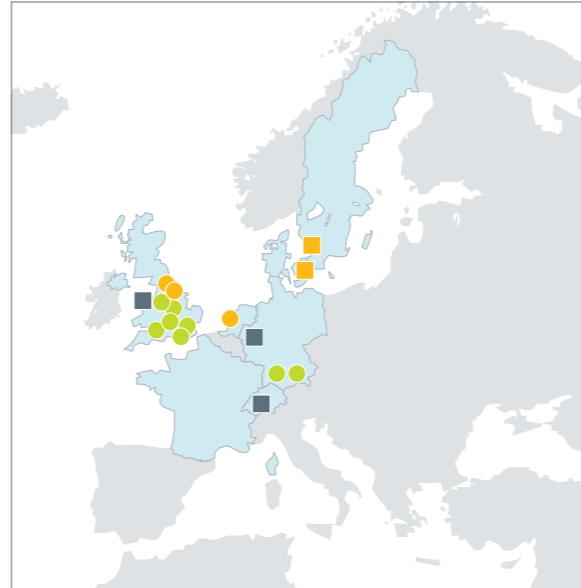
IFC Group at a Glance
01 Financial Highlights
02 Chairman's Statement
04 Chief Executive's Review
06 Business Model
18 Business Review
22 Directors and Advisors
24 Five Year Record

Audited financial statements are set out in the Annual Report & Accounts 2011.



Our markets

The Group is well diversified by geographic and business area.



Geography

Europe

43%
of revenues¹

23% UK
20% Continental Europe

North America

50%
of revenues¹

22% US
28% Canada

Rest of World

7%
of revenues¹

Key

Life Sciences
● Healthcare
■ Environmental

Seals
● Aftermarket
■ Industrial OEM

Controls
● Controls

Sector analysis

Life Sciences

32%
of revenues¹

Geographical split of revenues

75% Canada
20% Europe
5% ROW

223 employees worldwide

Seals

35%
of revenues¹

Geographical split of revenues

70% North America
15% Europe
15% ROW

432 employees worldwide

Controls

33%
of revenues¹

Geographical split of revenues

56% UK
39% Continental Europe
5% ROW

245 employees worldwide

¹ By destination.

Continued strong performance

Year ended 30 September 2011

	2011 £m	2010 £m	
Revenue	230.6	183.5	+26%
Adjusted operating profit ¹	45.2	32.1	+41%
Adjusted operating margin ¹	19.6%	17.5%	
Adjusted profit before tax ^{1,2}	44.9	32.2	+39%
Profit before tax	39.2	26.7	+47%
Profit for the year ³	27.6	23.0	+20%
Free cash flow	25.0	29.8	-16%
	Pence	Pence	
Adjusted earnings per share ^{1,2}	27.9	18.9	+48%
Basic earnings per share	24.0	14.6	+64%
Total dividends per share	12.0	9.0	+33%
Free cash flow per share	22.1	26.3	-16%

1 Before acquisition related charges.

2 Before fair value remeasurements.

3 Profit for the year is stated after tax and includes the profit on sale of the discontinued businesses in the prior year. All other reported results relate to continuing businesses.

Note:

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 and free cash flow. 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 in the Annual Report & Accounts.



Consistent profitable growth



John Rennocks
 Chairman

As I enter my tenth year as a Director of the Company, it is particularly encouraging to report another year of excellent progress at Diploma with key performance indicators all hitting record levels.

These results continue to demonstrate the strength and resilience of the Group's business model which has enabled it to report consistent profitable growth over the past ten years. In July 2002 when I joined the Company, the Group had recently emerged from a major restructuring programme, having divested a number of traditional core businesses and returned a large proportion of the cash proceeds (ca. £70m) to shareholders. The Group had just reported pre-tax profits of £10.0m on revenues of £66.3m in respect of its continuing businesses. At the same time the Group's market capitalisation was below £100m and total dividends were 2.6p per share.

Over the ten years since then, the Group has generated strong double digit compound growth in revenues through a combination of steady organic growth and value enhancing acquisitions. Profits and dividends over this period have increased by a factor of more than four times. The total shareholder return ("TSR") has also grown strongly relative to the FTSE mid-250 index (excluding investment trusts) ("FTSE 250") which we have always seen as a benchmark for our performance. This strong relative performance was recognised in October of this year when the Company achieved the important milestone of promotion to the FTSE 250.

Towards the end of this year, the Board approved proposals to further expand the activities in a number of key businesses by moving their existing activities to new enlarged facilities. These facilities will enable the momentum of growth to be sustained, within the constraints of an uncertain economic outlook. I remain confident that with its broader base of businesses, the resilience of its business model and its depth of resources, the Group is well placed to continue to make further progress in the next ten year period.

2011 Results

Group revenue increased by 26% to £230.6m (2010: £183.5m) with the businesses continuing to benefit from strong customer demand and with acquisitions completed over the past eighteen months, contributing £17.2m to this year's Group result. The on-going focus on adding value to our delivery of product and services, together with the benefit of cost reductions carried out in 2009 has led to a further increase in adjusted operating margins to 19.6% (2010: 17.5%). As a result there was a substantial increase in adjusted operating profit, up by 41% to £45.2m (2010: £32.1m). Underlying Group revenues and adjusted operating profit increased by 17% and 31% respectively, after adjusting for the contribution from acquisitions and from the impact of currency movements on the translation of overseas results.

Adjusted profit before tax increased by 39% to £44.9m (2010: £32.2m) and adjusted earnings per share, which were boosted by the purchase of minority interests, increased by 48% to 27.9p (2010: 18.9p).

Free cash flow of £25.0m was generated as the businesses took advantage of better supply of product to rebuild working capital from the exceptionally low level last year. Last year's free cash flow of £29.8m included £6.4m from the disposal of the Anachem businesses.

Five year performance

EPS growth

+19% p.a.

2011	27.9
2010	18.9
2009	14.8
2008	16.0
2007	13.1

Adjusted EPS in pence

TSR growth

+21% p.a.

2011	258
2010	222
2009	129
2008	107
2007	150

TSR index, 2006 = 100

Dividend growth

+21% p.a.

2011	12.0
2010	9.0
2009	7.8
2008	7.5
2007	5.4

Dividends in pence per share

Strong Balance Sheet

Given the current uncertainty in the global financial markets, the Board continues to focus on ensuring that it has sufficient financial resources to take advantage of acquisition opportunities. An important part of this process was the securing of new bank facilities, earlier in the year, which can provide up to £40m of borrowings. These facilities, together with net cash of £12.2m held at 30 September 2011, ensure that the Group continues to maintain a strong balance sheet.

Acquisitions

During the year the Group spent £28.2m on acquisitions, principally in the Canadian Healthcare sector, with the acquisition of Carsen Medical Inc. ("CMI") in December 2010 and the purchase of the outstanding 25% minority shares in AMT. This latter acquisition of minorities facilitated the merger of AMT's endoscopy business with CMI with effect from 30 September 2011.

It remains an important part of the Board's strategy to accelerate growth through carefully selected, value enhancing acquisitions. A cornerstone of our acquisition programme has always been to target businesses where we see the opportunity for above average growth soon after the activities have been integrated into the Group.

We believe that the current stage of the business cycle provides a reasonably good environment for making such acquisitions. Good recent performance by target companies allows for sensible valuation discussions to be held with sellers, while the general economic uncertainty may encourage them to feel that the time may be right to sell their companies.

Dividends

As a result of the excellent progress made by the Company during the year, the Board is recommending an increase in the final dividend of 37% to 8.5p per share (2010: 6.2p) which, subject to shareholder approval at the Annual General Meeting, will be paid on 25 January 2012, to shareholders on the register at 9 December 2011.

The total dividend per share for the year will be 12.0p which represents a 33% increase on 2010 and represents the twelfth successive year that the Company has reported an increase in dividends paid to shareholders.

Governance

The importance of maintaining high standards of governance within the Company has been re-emphasised this year with the implementation of recommendations set out in the updated UK Corporate Governance Code. The development of strong governance is a continuous process and I will be working closely with my Board colleagues this year to ensure that the Company's governance standards and procedures are appropriate to meet the requirements of a FTSE 350 constituent member. These requirements are set out further in the Chairman's foreword to the statement on Corporate Governance set out on page 26 of the Annual Report & Accounts.

Employees

Our employees are our most important asset and we continue to invest time and resources into developing strong management groups and committed staff teams. We encourage an entrepreneurial culture within our businesses so that our employees feel responsible for their own businesses while being able to draw on the resources of a larger group. I wish to thank all of our employees for their exceptional efforts in helping to deliver this year's very strong financial performance.

Outlook

The financial performance of the Group this year has benefited from strong trading in its principal markets. While trading remains robust, underlying organic growth is expected to trend towards our target "GDP plus" levels when measured against increasingly demanding comparatives.

With a resilient business model, a good geographic spread of activities and supported by a strong balance sheet, the Group is well placed to withstand further shocks to the global economy. With this background, a combination of consistent organic growth, together with a favourable environment for acquisitions, provide the Board with confidence that further progress will be made in the new financial year.

John Rennocks

Chairman

21 November 2011

Strategy and performance

Principal corporate objectives

Achieve double digit growth in adjusted EPS over the business cycle

Adjusted earnings per share ("EPS"), measured over the business cycle, provides an absolute benchmark of the Company's performance. Over the last five years, adjusted EPS has grown at a compound growth rate of 19% p.a. through a combination of steady organic growth and carefully targeted acquisitions.

Generate TSR growth in the upper quartile of the FTSE 250

Total shareholder return ("TSR") is the growth in value of a share plus the value of dividends re-invested in the Company's shares on the day on which they are paid. This is measured against the TSR growth of the FTSE mid-250 index (excluding investment trusts) ("FTSE 250"). The last five years have seen a compound TSR growth for Diploma of 21% p.a., which represents upper quartile performance as compared with the FTSE 250, where median TSR growth has been 3% p.a.

Deliver progressive dividend growth with two times dividend cover

Diploma follows a progressive dividend policy with a target cover of two times on an adjusted EPS basis. Over the last five years, dividends have steadily grown at the rate of 21% p.a. and this continues the trend of increasing dividends in each of the last 12 years.



Bruce Thompson
Chief Executive Officer

Our business model

Essential PRODUCTS

We focus on businesses which supply essential products and services:

- Funded by customers' operating rather than capital budgets
- Providing recurring income and stable revenue growth

Essential SOLUTIONS

We provide solutions to meet customer needs, combining:

- Highly responsive customer service
- Deep technical knowledge and support
- Value adding activities

Essential VALUES

We encourage an entrepreneurial culture in our businesses:

- Decentralised management model
- Ensures businesses are agile and responsive to change

"Our business model has delivered a record performance in the year."

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.

Maintain stable attractive margins

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.

Accelerate growth through carefully selected value enhancing acquisitions

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

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.

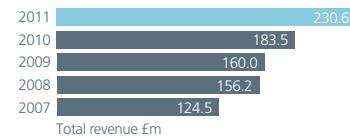
Create value by consistently exceeding 20% ROTCE

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

Key performance indicators

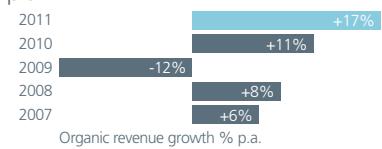
Total revenue growth: % p.a.

16% p.a.
compound



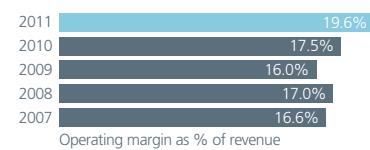
Underlying organic revenue growth: % p.a.

+6% p.a.
average



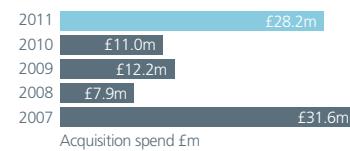
Operating margins: % of revenue

17-18% average



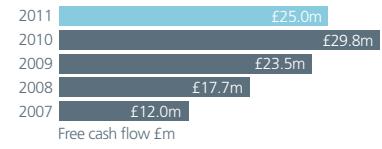
Acquisition spend and ROI

>20% ROI



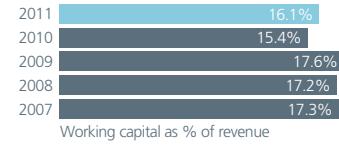
Free cashflow: £m

£22m p.a.
average



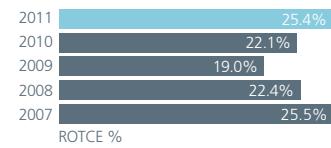
Working capital as % of revenue

17% average



ROTCE: %

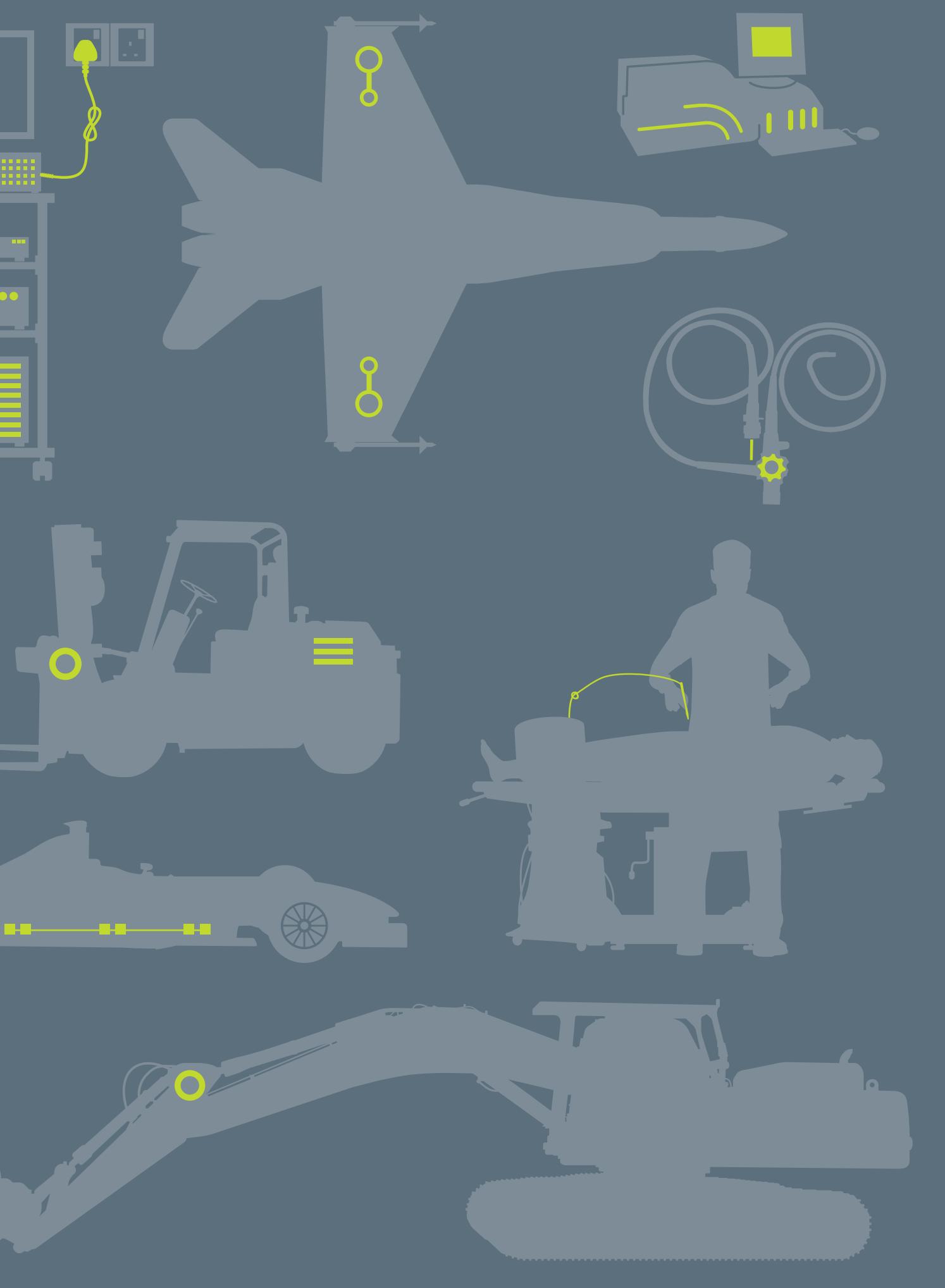
23% average



Essential products

We focus on essential products and services funded by customers' operating rather than capital budgets, giving recurring income and stable revenue growth.

A high proportion of the Group's revenues are generated from consumable products and service contracts and in many cases the products will be used in repair and maintenance applications and upgrade programmes, rather than supplied to original equipment manufacturers.





Essential products

We focus on essential products and services funded by customers' operating rather than capital budgets, giving recurring income and stable revenue growth.



Life Sciences

Case study on smoke evacuation in electrosurgery

Operating room ("OR") nurses and other members of the surgical teams are becoming increasingly aware of the hazards of inhaling surgical smoke. In 90% of laparoscopic and open surgical procedures, an electrosurgery device is used to cut and coagulate tissue. This creates a plume of surgical smoke which can contain toxic gases, bacteria and viruses. In tests, inhaling the plume created by using such an electrosurgery device on one gram of tissue, is equivalent to smoking six unfiltered cigarettes.

Through regular exposure, the inhalation of surgical smoke is harmful to hospital staff including surgeons, anesthesiologists and in particular, OR nurses. The plume can also be hazardous to patients undergoing laparoscopic procedures, when the contaminants of surgical smoke can be absorbed into the patient's vascular system.

Our DHG Healthcare businesses in Canada and Australia supply a range of smoke evacuation products which remove and filter the surgical smoke. Our businesses supply the smoke evacuation pumps at little or no charge to hospitals and sign up multi-year contracts to supply the consumable products, including tubing, filters, shrouds and patented surgical devices which combine the functions of both electrosurgery and smoke evacuation. (see below).

Once smoke evacuation has been introduced to a hospital and promoted through our education programmes, its use quickly becomes an essential requirement in operating rooms and is written into policies and procedures. Our experience has been that the usage of smoke evacuation only increases over time – once hospital staff have experienced the benefits, they are reluctant to carry out procedures without this protection. Our products over time become an accepted and essential part of the hospitals' operating budgets.

Example products
 Single-use, patented electrosurgical electrode with integrated smoke evacuation device



Seals

Case study on aftermarket seals

Our Hercules business in North America is a one-stop source for replacement seals used in hydraulic cylinders in heavy mobile machinery. The products are used wherever hydraulic power is employed to move heavy loads in applications such as construction, agriculture, logging, refuse disposal, material handling etc.

A typical piece of heavy mobile machinery, such as a large bulldozer or excavator, will have on average 4–6 hydraulic cylinders with an average of 8 seals per cylinder. If any one of these 30–50 seals fails in operation, a very expensive piece of machinery is out of action and losing the operator money.

We do not normally supply the seals and seal kits used in the first three years of the equipment life, when the original manufacturer's warranty is still in place or the equipment is leased. During this period, the terms of the warranty or lease will normally require that spare parts from the original manufacturer are used.

However, once the equipment is sold into the second-hand or pre-used market, or the lease term for the equipment expires, Hercules becomes the supplier of choice with its range of sealing products for all main brands of machinery, its next day delivery service and its competitive pricing.

Hercules clearly benefits during periods of strong growth in end-use markets, when equipment usage rates are high and repairs are quickly carried out whenever a failure occurs. However, Hercules is also insulated from the worst effects of a downturn in end-use markets, when capital spend on new equipment is typically cut back. Initially operational spend will also be reduced as equipment is not repaired immediately, but after a period of adjustment, expenditure on repair and maintenance is required to keep older equipment operational.



Example products

Seals products used in the repair of hydraulic cylinders in a broad range of heavy mobile machinery

Controls

Case study on wiring harnesses for Aerospace and Defence

Complex wiring harnesses are used to control a range of functions in technically demanding applications such as Aerospace and Defence.

We do not typically supply to the new build programmes of aircraft, tanks, submarines and other major defence platforms. This initial supply is managed direct by the manufacturers whose business model is tailored to the design-in and supply of large quantities of their products. Our IS-Group business will supply products to these major new build projects when order quantities have been under-estimated and smaller quantities are required quickly from stock, or for certain prototype or initial build stages where smaller volumes are required.

The main market for IS-Group's products is in the refurbishment and upgrade programmes for equipment in service. For example, in civil aerospace applications, we will be the preferred supplier in replacement/upgrade programmes for aircraft seating or in-flight entertainment systems. In defence applications, we would be involved in the up-grade of weapons systems on military platforms, as well as operational maintenance programmes.

With this focus on in-service applications, the market driver for IS-Group revenues is the level of operational spending in sectors such as Aerospace and Defence. Revenues are much less impacted by cutbacks and postponements to major capital programmes. Again, we are supplying essential products funded by customers' operating budgets rather than capital budgets.



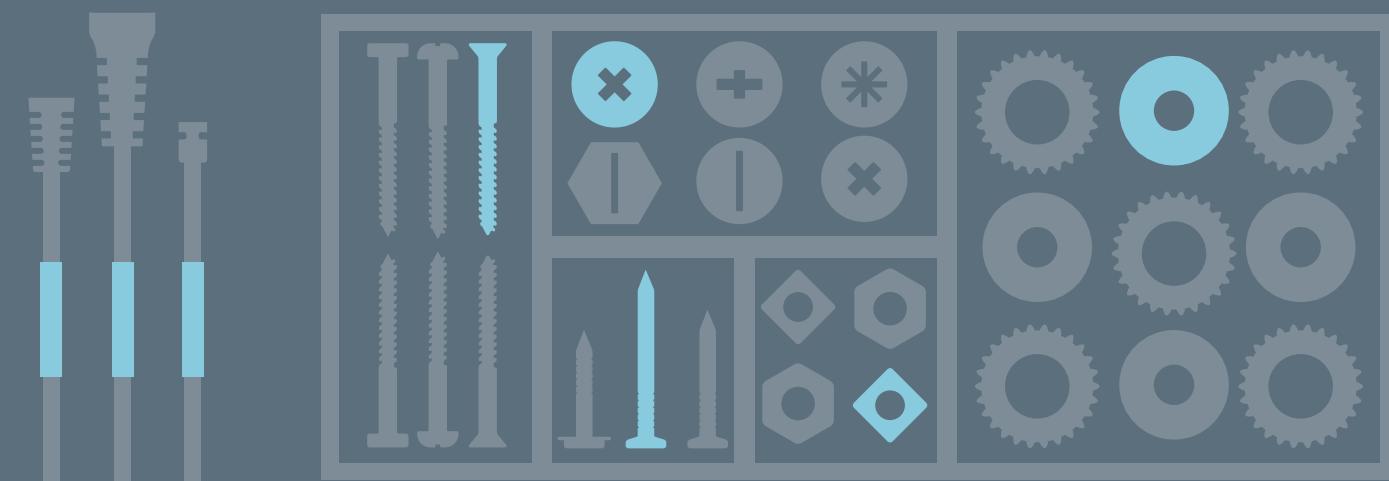
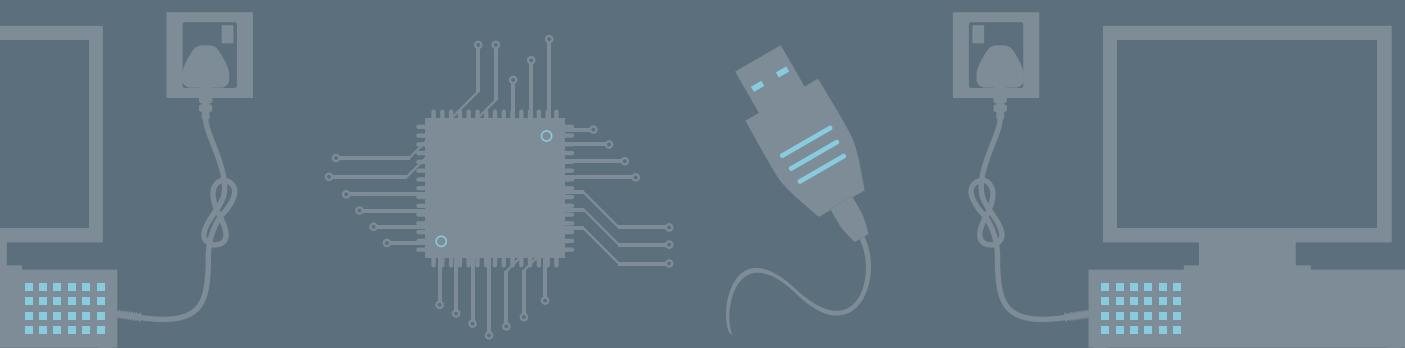
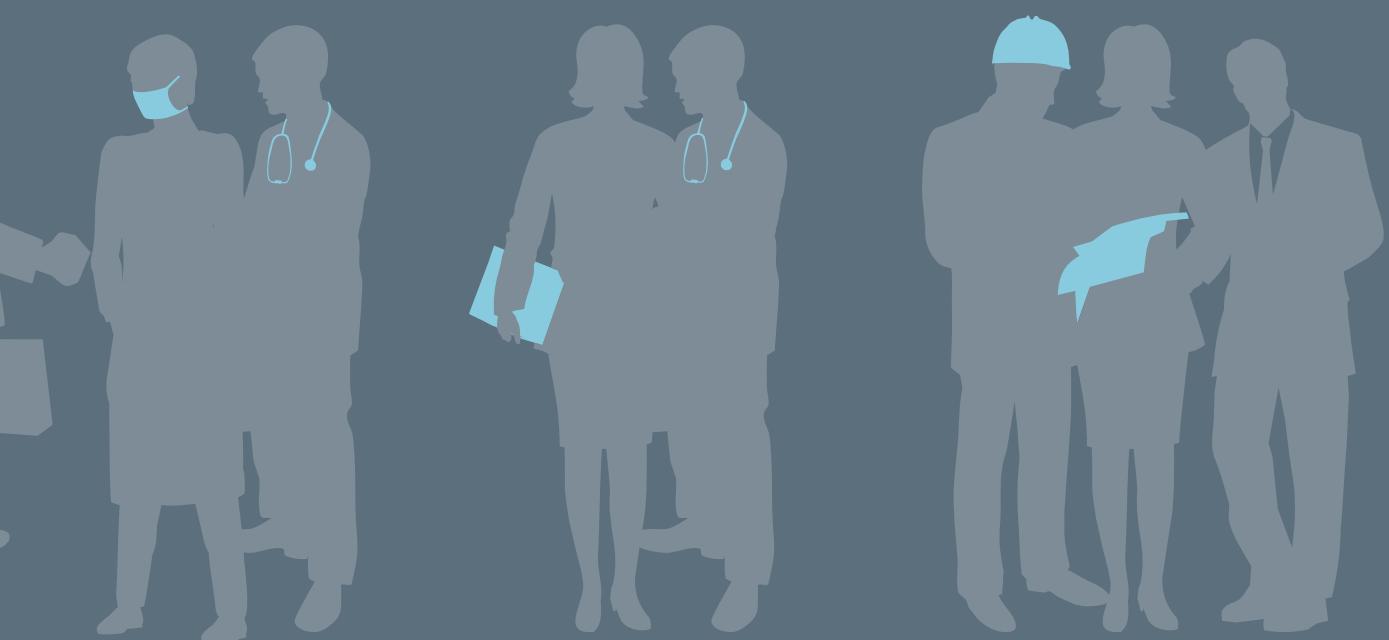
Example products

Wiring and harness components used in Aerospace and Defence applications

Essential solutions

Our businesses design their individual business models to closely meet the requirements of their customers. By supplying solutions, not just products, we build strong, long-term relationships with our customers and suppliers, supporting sustainable and attractive margins.

The solutions we offer can be based on highly responsive customer service, or in the form of deep technical support, where we work closely with our customers in designing our products into their specific applications. Or it can be in the form of added value services which, if we did not provide these services, customers would have to pay others to provide them or would require additional investment in their own resources.





Essential solutions

Our businesses design their individual business models to closely meet the requirements of their customers. By supplying solutions, not just products, we build long-term relationships with our customers and suppliers, supporting sustainable and attractive margins.



Customer service

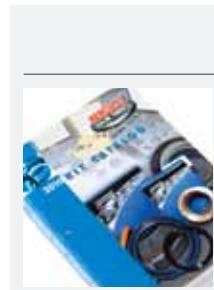
Case study on next day delivery of time critical products

When an expensive piece of construction machinery is out of action due to the failure of a seal in one of its hydraulic cylinders, the priority is to get the replacement seal to the repair shop as quickly as possible. Our Hercules business has built its business model to respond to this customer requirement by offering a responsive, next day delivery service for these time critical items.

Hercules holds inventory in its main Clearwater warehouse of ca. 30,000 different seals and seal kits, used in more than 2,000 equipment models produced by over a hundred mobile machinery OEMs. Over the last three years, Hercules has invested over US\$2m in warehouse automation and carousel systems and warehouse management software which ensure that we can maintain the highest levels of product availability, service quality and cost-efficiency. We can receive orders up until 8pm in the evening and with a 95% certainty level, will have the product in stock. We then pick, pack and dispatch the order for overnight delivery using FedEx and UPS. We can have the product to the customer's repair shop by 10.30am the next day, anywhere in the US.

In cases when we do not have the specific seal in stock, we are also able to offer our Seals-on-Demand service where we custom machine non-standard and out-of-production seals as a service to our customers.

Product selection is made very straightforward for customers by presenting the seals and seal kits in a range of catalogues and CDs tailored to the customers' needs. A simple decision logic leads from the original equipment manufacturer, to the model number to the individual cylinder and finally to the Hercules product part number. This logic lends itself to e-commerce and we offer a sophisticated web based ordering service where preferred by the customer.



Customer service

Hercules' catalogues and web-site give access to a range of ca. 40,000 seals and seal kits for most leading brands of heavy mobile machinery



Technical support

Case study on providing a full service capability

A hospital pathology laboratory needs to be set up to carry out a broad range of tests on blood, tissue and other samples to meet the needs of all the different medical disciplines and clinical departments. A major laboratory may carry out tens of thousands of tests per day, of which the majority will be carried out on major automated chemistry, haematology or immunoassay-chemistry systems supplied by one of the major clinical diagnostic instrument manufacturers.

In addition to these more routine tests, the laboratory will need to be equipped to carry out a range of more specialised tests, each requiring their own custom designed instruments and associated reagents and test kits. These will cover specialised applications from a variety of laboratory disciplines including infectious disease, auto-immunity, allergy, protein testing, molecular biology and cellular pathology.

Somagen, our clinical diagnostics business in Canada, does not just supply the products to the laboratories, but rather offers a full solutions capability. Under the terms of multi-year contracts, we provide the instruments to our customers and commit to service and maintain them. We then generate revenues by supplying the reagents and test kit consumables while providing technical service and support as required over the contract period.

Our sales and product application staff are highly qualified specialists who have the detailed technical knowledge to help laboratory technologists in establishing test procedures and to support laboratory staff in the interpretation and utilisation of results.

We offer full service solutions as the exclusive representative in Canada for a number of carefully selected, high quality, medium sized manufacturers based in the US, Europe and Japan.

Technical support
Somagen's specialists help laboratory technologists to establish test procedures and interpret results.

Added value services

Case study on providing added value services

When a Formula 1 team is seeking to design and build a car that will out-perform its rivals, it requires supply chain partners that can match its exacting standards.

In a typical chassis harness set for a Formula 1 car, there will be in excess of 1,000 metres of high performance wiring, over 200 individual interconnect components, including connectors, sensors, shrink fit tubing, moulded shapes and splices, as well as lacing, braiding and identification products.

Our IS-Group businesses have designed their business models to be able to supply to their customers from stock, the full range of wiring and harness components that they require. They have gone further in investing in technical staff who work closely with the customers' engineers to design-in products to provide the required solution. Investment has also been made in equipment and processes to be able to offer a range of value-added services including:

- Connector assembly
- Sleeve marking
- Prototyping of customised cables
- Cut-to-length tubing
- Kitting and Kan-Ban supply

The IS-Group works closely with customers to understand their requirements and to offer the products in the most user-friendly way. For the Formula 1 Motorsport teams, in addition to supplying products to the harness assemblers, kits of high performance fasteners are supplied to engine builders so that the engines (block, pump, sump etc.) can be built and rebuilt with the most efficient use of the engineer's time.

Added value services
Kits of components provided to a leading F1 Motorsport team for use on race-day

Essential values

We encourage an entrepreneurial culture across our businesses, through a decentralised management structure. We want our managers to feel that they have the freedom to run their own businesses, while being able to draw on the support and resources of a larger group 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. This 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.





Essential **values**

We encourage an entrepreneurial culture within our businesses through our decentralised management model. This ensures that the businesses are agile and responsive to change.

Decentralised management

The Diploma management model has been built around strong, self-standing management teams in the various operating businesses, committed to and rewarded according to the short and long-term success of those businesses.

The small corporate team in Diploma comprises three Executive Directors and eight staff at the centre who focus on strategic and financial control across the Group businesses. In the major business clusters, there are small senior management groups providing more direct leadership and control and ensuring quick decision making.

Across the operating businesses, we have a cadre of ca. 60 senior managers, who demonstrate a good blend of energy, ambition and experience. The average age of these managers is 43 and they have an average length of service within their companies/industries of ten years.

Within an agreed strategic framework, the tactical decision making takes place in the businesses, close to the customers. The management teams can therefore respond quickly to changes in market demand, customer requirements or competitive dynamics. This proved very important during the recent worldwide recession, when our management teams were able to closely align resources (both people and working capital) to the changing demand to maintain customer service levels while managing operating costs and cash flow.



Profile of senior management

Senior management cadre: ca. 60 managers

Average age of managers: 43 years old

Average length of service within company/industry: ten years



Entrepreneurial culture

Essential to the successful development of Diploma over many years, has been the ability to make carefully selected acquisitions to accelerate growth and take us into new, but strategically related markets. In introducing these acquisitions into the Group, it has been essential to create an environment where entrepreneurial owner managers feel comfortable staying with the businesses under new ownership and ensuring continued growth and planned succession.

The acquisitions we have made have typically been privately owned companies, already successful and with a good track record. The reasons for sale are varied. It may be that the owner is approaching retirement and wants to engineer a planned exit over a period of time. In other cases, multiple owners may be using the sale to allow the majority owner to exit, while the minority owners continue in the business under restructured ownership. Finally there are cases where the business has reached the point where additional resources are needed to take it to the next level of growth and owners are unable or unwilling to provide the additional funding.

Our willingness to be flexible when acquiring businesses has proved to be a significant competitive advantage for us in making acquisitions. In many of our medium sized acquisitions, where the objective has been to extend into new markets or geographies, it has been essential to retain the committed involvement of the owner managers. In these cases, we leave owner managers with a minority shareholding (typically 10–20% in aggregate) with put and call options, exercisable typically over three to five years. This allows Sellers to crystallise the larger part of the value created in their business, while giving them the opportunity to share in the future growth of the business post acquisition. This aligns our interests closely and reduces risk.

Management development

The development of strong managers and management teams is essential for the Group's continued growth; a committed group of managers is required who respond to a challenging work environment and have the potential to manage aggressive growth strategies. Importantly they must be able to motivate their staff and engender in them the same commitment.

The first priority is to ensure a challenging work environment for talented managers who want to broaden their skills and experience. They are encouraged to set demanding but achievable growth targets for their businesses and to formulate convincing strategies to achieve these objectives. Once agreed, the management teams are responsible for the execution of these strategies, and can take full satisfaction from the success they achieve. Tailored management development and training programmes are encouraged to further develop the skills of managers.

Appropriate reward systems are also important in keeping managers motivated and to give recognition for their success. Management compensation is structured to reward performance against the Group's Key Performance Indicators on a short and longer term basis.

We also ensure that the management teams have the appropriate resources in place to support them in their strategies. Regular investment is made in IT systems and automation to ensure that management have access to the information they need and the ability to run their operations efficiently. The management teams can also draw on the resources of the larger Group – whether by accessing best practices from around the Group, or by sourcing cost-effective services.

Flexible acquisition model

Owner managers can retain minority shareholdings

Put and call options exercisable over three to five years

Aligns interests and reduces risk

Management development

Challenging work environment

Appropriate reward systems

Resources and support

2011 Year in Review

Business model

The Group comprises a number of high quality, specialised businesses supplying technical products and services to customers in the Life Sciences, Seals and Controls industries. The Group's business model is designed to achieve the twin objectives of stable organic revenue growth and sustainable attractive margins. Growth is then accelerated through carefully selected, value-enhancing acquisitions which fit the Group's business model and offer entry into new strategic markets.

We aim to achieve these objectives by focusing on businesses which supply *essential products* and services which are funded by the customers' operating rather than their capital budgets, providing recurring income and stable revenue growth. Our businesses then design their individual business models to closely meet the requirements of their customers, offering a blend of high quality customer service, deep technical support and value adding activities. By supplying *essential solutions*, not just products, we build strong long-term relationships with our customers and suppliers, which support attractive and sustainable margins. Finally we encourage an entrepreneurial culture in our businesses through our decentralised management structure. We want our managers to feel that they have the freedom to run their own businesses, while being able to draw on the support and resources of a larger group. These *essential values* ensure that decisions are made close to the customer and that the businesses are agile and responsive to changes in the market and the competitive environment.

The Group's business model has been closely tested over the last three years. The businesses proved their resilience through the 2009 global downturn with Group revenues growing by 2% (albeit a decline on

an underlying basis) and operating margins held at a creditable 16% of revenue. As markets have slowly recovered following the recession, the Group has moved forward strongly, posting seven quarters of growth in revenues and profits since the recovery started in early 2010 and outperforming economic and market benchmarks. This level of relative performance confirms that the operating businesses have succeeded in further penetrating their markets by maintaining high customer service levels and adding product lines through the downturn.

Operating performance

In 2011, revenues increased by 26% to £230.6m (2010: £183.5m) with underlying growth of 17% after adjusting for currency effects and acquisitions. As revenues have increased, the businesses have continued to manage costs carefully in view of continuing uncertainty over the sustainability of the recovery. With the resulting benefits of operational leverage, adjusted operating margins have increased to 19.6% of revenue (2010: 17.5%).

The operating margins achieved this year are well above the three year average of ca. 18% of revenue. It is likely that over time operating margins will gradually trend back towards this average, as resources will need to be increased to support higher levels of revenue. In addition, there will be increased investment in fixed assets to ensure that the IT environment and the facilities in the businesses provide a robust foundation for further growth; this investment will result in higher operating costs and depreciation. In 2012, for example, three of the businesses will be moving into new facilities at a total cost of ca. £1m – the IS-Group in Swindon, RT Dygert in Minneapolis and Vantage Endoscopy in Toronto.

Free cash flow in 2011 has again been strong at £25.0m against a very strong prior year comparative (2010: £29.8m), which had been boosted by the proceeds from the sale of the Anachem businesses, as well as by a reduction in working capital across the Group. During 2010, working capital had fallen to the level of 15.4% of revenue as suppliers struggled to keep pace with increasing demand for their products. By the end of the 2011 financial year, working capital had moved back to a more normal level of 16.1% of revenue, with an additional investment of £7.4m.

During the year, £28.2m was invested in acquisitions, principally in the Canadian Healthcare business. Return on trading capital employed ("ROTCE") has increased to

"In 2011, revenues increased by 26% to £230.6m... operating margins hit record level of 19.6%."

25.4% (2010: 22.1%) principally driven by the improved operating margins.

Sector developments

The Group's strategic objective is to build more substantial, broader based businesses in each of its chosen sectors through a combination of organic growth and acquisition. Good progress was made in the year in executing this strategy in each of the three sectors and the key developments this year are summarised below.

Life Sciences

	2011 £m	2010 £m	
Revenue	74.4	55.4	+34%
Operating profit	17.1	11.9	+44%
Operating margin	23.0%	21.5%	

The Life Sciences businesses increased revenues in 2011 by 34%, boosted by the contribution from the acquisition in December 2010 of CMI and also modest currency translation benefits. Underlying sector revenues increased by 12% after adjusting for the acquisition and currency effects. Operating margins increased by 150 basis points to 23.0% (2010: 21.5%), mainly driven by improved profitability in the Environmental business.

The Group's *Healthcare* businesses in Canada and now Australia ("Diploma Healthcare Group" or "DHG"), account for almost 80% of the Life Sciences sector revenues. They operate in healthcare markets which are largely public sector funded and where the demand from growing, aging and well-educated patient populations drives a steady growth in funding (on average 6–7% p.a. growth over 15 years in Canada). Within these markets, the DHG businesses supply specialised products which are used in the pathology laboratories, operating rooms ("OR") and endoscopy suites of the hospitals as well as private clinics. During the recession there were initiatives to control costs including limits imposed on the number and cost of specific medical procedures and diagnostic tests and extended tender processes for capital equipment. However, overall Healthcare expenditure has continued to grow steadily in real terms and there has been some evidence of an easing of capital approvals.

The DHG business model is built on the supply, on an exclusive basis, of high quality, manufacturer branded

products secured by long-term distribution agreements. Strong customer relationships are forged through high levels of customer service, with highly qualified and experienced technical sales and product application staff working closely with the surgeons, OR nurses and laboratory technologists. A large proportion (over 60%) of DHG's revenues are secured under multi-year customer contracts.

During the year, DHG expanded its business in Canada through the acquisition of CMI, a supplier of medical devices, consumables and service to GI Endoscopy suites in hospitals and clinics across Canada. CMI shares a common customer base with the endoscopy business within our existing AMT company and the products are very complementary with few overlaps. With effect from the start of the new financial year, the businesses were combined under a single management team, with the new name of Vantage Endoscopy ("Vantage") and with plans to relocate to a new facility in the first half of the year. Vantage is now able to offer to its GI Endoscopy customers, the most complete range of products, including endoscopic imaging and reprocessing systems, therapeutic technologies and devices and other essential accessories and service support.

There are now three similar sized, growing DHG businesses in Canada, the Somagen clinical diagnostics business, AMT's core electrosurgery business and Vantage. Each of these businesses has good potential for further growth by continuing to penetrate core markets, as well as by adding new product lines and suppliers. In Australia, BGS is a smaller version of AMT which was acquired towards the end of 2010. During the year investment was made to generate stronger growth by employing direct sales staff to replace sub-distributors in Victoria, Queensland, South Australia and New Zealand.

The remaining 20% of the sector revenues are generated by the a1-group of *Environmental* businesses in Europe, which supply a range of products used in Environmental Testing and Health & Safety applications. The market demand is largely driven by regulation which ensures steady demand for the essential consumable products, though customers do defer capital expenditure during economic downturns.

The a1-envirosciences group, following its restructuring in 2010, now has its principal operations in Germany and Switzerland with other Northern European markets served through sales and service staff. The benefits

of the restructuring have been seen this year in the improvement in operating margins. The CBISS business in the UK has seen good growth in its sales of emissions monitoring systems, both in replacement systems for traditional power stations and new systems for alternative power plants (e.g. waste, biofuels, syngas). Demand for gas detection products has also been strong.

Seals

	2011 £m	2010 £m	
Revenue	80.0	60.1	+33%
Operating profit	14.9	8.9	+67%
Operating margin	18.6%	14.8%	

The Seals sector businesses increased revenues in 2011 by 33%, boosted by a full year contribution from All Seals, acquired in September 2010, and despite modest currency translation losses. Underlying sector revenues increased by 26% after adjusting for the acquisition and currency effects. Operating margins increased by 380 basis points to 18.6% (2010: 14.8%), demonstrating the effects of operational leverage in this business, as increases in operating costs lagged the strong increase in revenue.

Currently just over 60% of Seals sector revenues are generated from the *Aftermarket* businesses of HPG (Hercules, Bulldog and HKX) and FPE. Own brand sealing products, sourced from the same seal manufacturers who supply to the original equipment OEMs, are supplied to a broad range of mobile machinery applications in heavy construction, logging, mining, agriculture, material handling and refuse collection. The principal market drivers are therefore the growth in the general industrial economy and in particular heavy construction.

In the core Aftermarket business in North America, the key to success is the ability to provide a next day delivery service from inventory, for seals and seal kits used in a broad range of different manufacturers' machinery and different applications. Typically the first three years of equipment life is controlled by the OEMs through product warranty and lease terms. However, after the equipment is sold into the pre-used market or moves out of warranty, Hercules has a very compelling offering to customers by providing a responsive, next day delivery service for these time critical items.

The Aftermarket business was insulated from the worst of the 2009 recession, by its focus on customers' operational rather than capital budgets. As a result, it rebounded less strongly in 2010. In 2011, however, revenues increased by over 25% which suggests a significant increase in market share driven by the high level of customer service levels maintained during the downturn.

Outside North America, the main focus for development has been in Europe where good progress has been made in both direct sales in the UK and Benelux countries, as well as the appointment of sub-distributors to distribute Hercules seal kits in other mainland European countries. Initiatives are also being developed to increase penetration in other developing markets in Asia Pacific and South America.

The *Industrial OEM* businesses now represent close to 40% of sector revenues following the addition of All Seals to the RT Dygert and M Seals businesses. These companies supply seals, O-rings and custom moulded and machined parts to a range of specialised Industrial OEM customers. Applications include spray painting guns, water filtration, wind power mills, hearing aids and medical devices. On a like-for-like basis, these businesses have increased revenues by 25% in 2011 and are experiencing demand well ahead of pre-recession levels.

The acquisition of All Seals has extended the Group's coverage in the US, with its strong position in California and the South Western States complementing RT Dygert's strength in the Mid-western States. M Seals has further penetrated its core Scandinavian markets from its operations in Denmark and Sweden and has established a wholly owned foreign enterprise ("WOFE") in Tianjin to trade directly with wind power customers in China.

Controls

	2011 £m	2010 £m	
Revenue	76.2	68.0	+12%
Operating profit	13.2	11.3	+17%
Operating margin	17.3%	16.6%	

The Controls sector businesses increased revenues in 2011 by 12% in both UK sterling and constant currency terms. Operating margins increased by 70 basis points to 17.3% (2010: 16.6%).

Three year acquisition track record

Financial year	Acquisition spend £m	Life Sciences	Seals	Controls
2009	12.2	Meditech – Canada	RT Dygert – US	
2010	11.0	BGS (80%) – Australia Somagen (8%) – Canada	All Seals – US	ET Fisher – Germany
2011	28.2	AMT (25%) – Canada CMI – Canada		
Three year total	51.4			

The IS-Group (UK), Sommer and Filcon businesses supply high performance wiring, connectors, fasteners and control devices used in a range of technically demanding applications. The businesses offer high quality, manufacturer branded products sourced under the terms of long-term exclusive distribution agreements. Strong customer relationships are based on ex-stock availability of product, responsiveness, technical advice on product applications and a range of value added services.

The largest end user sector is *Defence & Aerospace*. Here, the businesses do not typically supply to major platform OEMs and Tier 1 suppliers, who are mostly served direct by the manufacturers. Rather, the businesses supply into repair, refurbishment and upgrade programmes, as well as supplying to Tier 2 electronics customers, where ex-stock availability and responsiveness are important. The businesses therefore are less exposed to cutbacks and postponements in major defence programmes as a result of the Strategic Defence Reviews in the UK and Germany; though inevitably there will be some impact longer term at the sub-contractor and component supply level. In Commercial Aerospace, the businesses supply products principally for the initial installation and subsequent upgrades of aircraft interiors. After falling back in 2009, demand picked up in 2010 and as passenger numbers continue to recover, the sector appears to be returning to its long-term projected growth rate of ca. 5% p.a.

The businesses also supply to a range of specialised technical applications in the General Industrial market. The underlying market drivers are the growth of the industrial economies in Europe (in particular the UK and Germany), but demand tends to be more stable in the specialised sub-sectors in which we operate. In *Motorsport*, activity increased sharply with a successful F1 racing season and growth in the Indycar and Nascar series in the US, the DTM series in Germany and the World Rally Championship. *Medical Equipment* is another specialised market where demand has been stable and in *Energy*, there has been strong demand from the manufacturers of electrical generators and commercial batteries. The closure of the older nuclear plants in Germany will also require infrastructure investment in the power distribution network.

Hawco serves the *Commercial Refrigeration* market in the UK which continues to be buoyant, driven by investment by the major food retailers in new convenience stores and in energy saving technologies when refurbishing existing outlets.

Acquisition activity

Over the last five years, the Group has invested ca. £91m in acquisitions across the sectors and geographies – an average of ca. £18m p.a. The success in financial terms can be measured broadly by the profit return on the total investment which currently stands at over 20%. In 2011, a total of £28.2m was invested, mainly in the Canadian Healthcare business in the acquisition of CMI and the purchase of the 25% minority shareholdings in AMT.

While the time and effort invested in the acquisition programme is a sustained activity, the results can be more irregular. We find that most success tends to come at times when the business cycle is changing and creating uncertainty. For example, when markets are slowing down after an extended period of growth, this may encourage owners to sell ahead of a market downturn. Alternatively, in the early stages of recovery, when confidence is building in future projections, owners who have delayed selling during a downturn may come back to the table. With the performance of many businesses having recovered since the 2009 recession, but uncertainty remaining as to the sustainability of the recovery, we believe that there will continue to be good opportunities for value adding acquisitions.

Summary and outlook

The continued strong performance of the Group and the resilience shown over the last five years gives us confidence that we can maintain the "GDP plus" levels of underlying revenue growth over the business cycle. The Group is well diversified by geography and business area and the business model supports stable revenue growth and sustainable, attractive margins. Although general economic uncertainty over the strength of global markets continues to grow, we see good opportunities for future development, both organically and through acquisition.

Bruce Thompson
Chief Executive Officer
21 November 2011

Diploma PLC

Directors and Advisors



John Rennocks (66)^{1,2,3}
Non-Executive Chairman



Bruce Thompson (56)
Chief Executive Officer



Nigel Lingwood (52)
Group Finance Director and
Company Secretary

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

Skills and experience: John is a Chartered Accountant with over 40 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 in the past 17 years, including as Chairman of six other public or private companies across several industrial or support service sectors.

External appointments: John is currently Chairman of Intelligent Energy plc and the Senior Independent Director of Inmarsat PLC and Babcock International Group PLC.

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.

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.

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



John Matthews (67) ^{1,2,3}
Non-Executive Director



Ian Grice (58) ^{1,2,3}
Non-Executive Director



Iain Henderson (55)
Chief Operating Officer

Appointed: Joined the Board in 2003.

Skills and experience: John is a Chartered Accountant and a former Managing Director and Head of Corporate Finance at County NatWest. Subsequent to this he was Deputy Chairman and Deputy Chief Executive at Beazer plc, an international civil engineering, construction, house building and aggregates group. He has also been Chairman of Crest Nicholson plc and Regus plc and a non-Executive Director of a number of listed and private companies.

External appointments: John is currently a member of the Board of SDL plc and Aurelian Oil & Gas plc and a member of the Advisory Board of Alexander Proudfoot.

Appointed: Joined the Board in January 2007.

Skills and experience: A chartered engineer with over 35 years experience in the Support Services and Construction sectors, in the UK and International markets. Ian held senior roles in several industrial groups before joining the board of Alfred McAlpine plc in 1995 where he was Chief Executive Officer from 2003 to 2008.

External appointments: Ian is currently a member of the Supervisory Board of Arcadis NV, and a non-Executive Director of three private companies.

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 ("SME") 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 and then Diploma PLC.

External appointments: None.

Advisors

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Bankers

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London E14 5HP

Auditor

Deloitte LLP
2 New Street Square
London EC4A 3BZ

HSBC Bank plc
City Corporate Banking Centre
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London EC4 4TRA

Corporate Stockbrokers

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London EC4M 7LT

Solicitors

Ashurst
Broadwalk House
5 Appold Street
London EC2A 2HA

Diploma PLC

Five Year Record

Year ended 30 September	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Revenue	230.6	183.5	160.0	156.2	124.5
Adjusted operating profit	45.2	32.1	25.6	26.6	20.7
Adjusted profit before tax	44.9	32.2	25.5	26.8	21.9
Fixed assets	11.4	11.7	12.4	12.8	12.7
Working capital	36.0	27.2	29.4	27.5	21.6
Trading capital employed	47.4	38.9	41.8	40.3	34.3
Goodwill and intangible assets	105.5	83.4	74.3	64.2	57.2
Trading capital employed (inc. goodwill)	152.9	122.3	116.1	104.5	91.5
Net cash funds	12.2	30.1	21.3	15.7	12.4
Other liabilities, net	(0.5)	(13.2)	(13.3)	(10.2)	(11.4)
Net assets	164.6	139.2	124.1	110.0	92.5
Cash flow from operating activities	40.3	34.3	34.2	27.8	23.0
Free cash flow	25.0	29.8	23.5	17.7	12.0
Acquisition expenditure	(28.2)	(11.0)	(12.2)	(7.9)	(31.6)
	Pence	Pence	Pence	Pence	Pence
Adjusted earnings per share	27.9	18.9	14.8	16.0	13.1
Dividends per share	12.0	9.0	7.8	7.5	5.4
Net assets per share	145.4	122.9	109.6	97.1	81.7
	%	%	%	%	%
Operating margin	19.6	17.5	16.0	17.0	16.6
Working capital as % of revenue	16.1	15.4	17.6	17.2	17.3
Return on trading capital employed	25.4	22.1	19.0	22.4	25.5

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 and free cash flow, as explained in note 2 to the consolidated financial statements in the Annual Report & Accounts.

