

DIPLOMA PLC

The Specialised International Distribution Group

INTERIM ANNOUNCEMENT

Six months ended 31 March 2004

PRESENTATION OF HIGHLIGHTS

10 May 2004

Presentation Structure

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I Overview – Group Strategy

- The Group's strategy is to invest in *Specialised Distribution* businesses with *long term growth potential* in the UK, Continental Europe and North America
- The businesses have a consistent record of sustaining *superior margins* over time, based on:
 - quality of customer service
 - depth of technical support
 - value adding activities
- The objective is to build more *substantial, broader based businesses*, by a combination of *organic growth and acquisitions*, in the three sectors of:
 - Life Sciences
 - Seals & Components
 - Controls & Interconnect

I Overview - Results

	Half Year ended 31 March			Full Year ended
	2004	2003		30 Sept 2003
Turnover	£48.0m	£36.4m	+32%	£77.1m
Operating profit*	£5.5m	£4.4m	+25%	£9.7m
Profit before tax*	£6.0m	£4.9m	+22%	£10.6m
Profit before tax after exceptional items	£9.0m	£6.9m	+30%	£12.7m
Adjusted earnings per share*	18.1p	15.0p	+21%	32.2p
Dividends per share	6.0p	5.0p	+20%	15.0p

* *excluding goodwill amortisation and exceptional items*

I Overview - Highlights

- Strong sales and profit growth, boosted by contributions from Hawco and Filcon
- Profit before tax, exceptionals and goodwill up **22%** to **£6.0m** (2003 : £4.9m)
- Exceptional profits of **£4.0m** from the sale of Phase 2 of Stamford land
- Exceptional operating costs of **£0.7m** incurred on restructuring the Hawco business
- Adjusted EPS up **21%** at **18.1p** (2003 : 15.0p)
- Interim dividend increased to **6.0p** (2003 : 5.0p)
- Recovery in several markets in the second quarter, continuing into the second half of the year

II Financial Highlights – Profit before tax*

	Half year ended 31 March		
	2004	2003	
	£m	£m	
Turnover			
- continuing operations	45.7	36.4	
- acquisitions	2.3	-	
	<u>48.0</u>	<u>36.4</u>	+32%
Operating profit*			
- continuing	5.2	4.4	
- acquisitions	0.3	-	
	<u>5.5</u>	<u>4.4</u>	+25.0%
<i>Operating margin</i>	11.5%	12.1%	
Interest income	0.5	0.5	
Profit before tax*	<u>6.0</u>	<u>4.9</u>	+22.4%

*excluding goodwill amortisation and exceptional items

II Financial Highlights – Profit before tax

	Half year ended 31 March		
	2004	2003	
	£m	£m	
Profit before tax, exceptionals and goodwill	6.0	4.9	
Goodwill amortisation	(0.3)	(0.2)	
Exceptional items			
- Hawco restructuring	(0.7)	-	
- Stamford property	4.0	2.2	
Profit before tax	9.0	6.9	+30.4%

II Financial Highlights – Profit after tax*

	Half Year ended 31 March		
	2004	2003	
	£m	£m	
Profit before tax*	6.0	4.9	+22.4%
Taxation*	(1.9)	(1.5)	
Profit after tax*	4.1	3.4	
Effective tax rate (excl. exceptionals)	31.7%	30.6%	
Earnings per share			
Adjusted	18.1p	15.0p	+20.7%
Basic	27.0p	23.8p	

*excluding goodwill amortisation and exceptional items

II Financial Highlights – Free cash flow

	Half Year ended 31 March		
	2004	2003	
	£m	£m	
Operating profit	4.5	4.2	
Depreciation and goodwill	0.8	0.7	
Working capital	(1.4)	(0.3)	
Provisions	0.3	(0.2)	
Operating cash flow	<u>4.2</u>	<u>4.4</u>	
Interest	0.5	0.5	
Taxation	(1.4)	(1.3)	
Capital expenditure	(0.4)	(0.7)	
Property proceeds	4.1	2.7	
Investment in own shares	(0.5)	-	
Free cash flow	<u>6.5</u>	<u>5.6</u>	+16.1%

II Financial Highlights – Net funds

	Half Year ended 31 March	
	2004	2003
	£m	£m
Free cash flow	6.5	5.6
Acquisitions	(3.6)	(0.2)
Equity dividends	(2.3)	(2.0)
	<u>0.6</u>	<u>3.4</u>
Loan Notes	-	(0.4)
	<u>0.6</u>	<u>3.0</u>
Increase in net funds	0.6	3.0
Funds brought forward	29.3	26.9
Exchange	-	0.2
	<u>29.9</u>	<u>30.1</u>
Net funds at 31 March	29.9	30.1

II Financial Highlights – Shareholders' funds

	31 March	30 Sept
	2004	2003
	£m	£m
Intangible assets	11.2	8.2
Tangible assets	8.8	9.3
	<hr/>	<hr/>
	20.0	17.5
Net working capital (inc.divs/tax)	12.0	11.4
Provisions/minorities	(2.1)	(1.1)
	<hr/>	<hr/>
Trading capital employed	29.9	27.8
Net funds	29.9	29.3
	<hr/>	<hr/>
Shareholders' funds	<u>59.8</u>	<u>57.1</u>
<i>ROTCE</i>		21.6 %
<i>WC/sales</i>		13.4%

III Review of Operations



Life Sciences

Anachem
a1-Envirotech

**26% of
Group sales**



Seals & Components

Hercules Bulldog Sealing
Products
Fluid Power Equipment

**27% of
Group sales**



Controls & Interconnect

IS Rayfast
IS Motorsport
Clarendon
Hawco
Sommer & Filcon

**47% of
Group sales**

III A. Life Sciences

The Anachem group of companies supply Instrumentation, Consumables and Services to the Life Sciences research laboratories of the major pharmaceutical and biotechnology companies, universities and research institutions.



III A. Life Sciences – Highlights

- Sales down 3% to £12.4m (2003 : £12.8m) - final effects of a1-biotech rationalisation
- Improved gross margins and reduced overheads led to 5% increase in operating profits
- Progress in *Consumables and Service*:
 - increased demand for new specialist pipettes
 - further contract gains for Pipettecare and Capital Service teams.
- Double digit growth in *Environmental* business in UK and Germany
- *Instrumentation* remained weak with few signs of a sustained recovery

III B. Seals & Components

Hercules Bulldog Sealing Products and FPE offer a next day delivery service for hydraulic seal kits, cylinder components and gaskets, supplied to repair and maintenance operations (RMOs) serving a broad range of mobile machinery aftermarkets.



HERCULES
BULLDOG
SEALING PRODUCTS

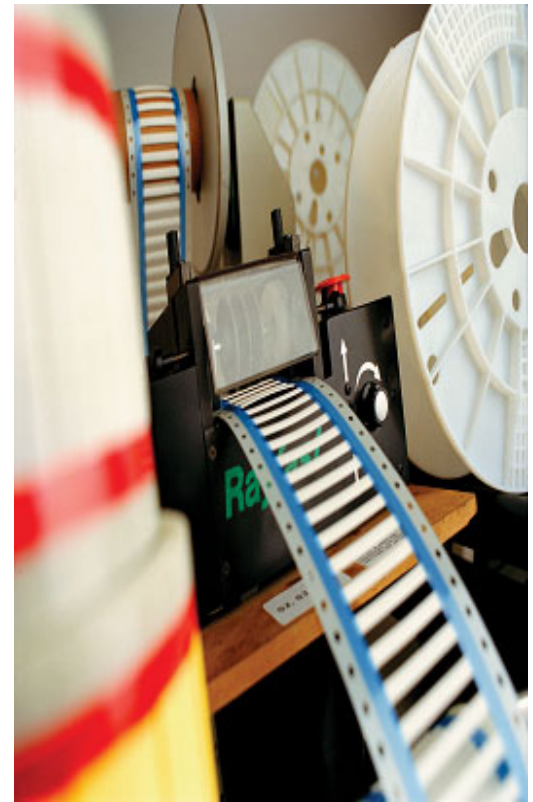


III B. Seals & Components – Highlights

- Sector sales delivered 7% growth on a constant currency basis (down 4% in sterling terms)
- Sector profits down 4% on constant currency basis (12% in sterling terms)
- ***Hercules Bulldog*** delivered 7% sales growth in US dollar terms:
 - second quarter recovery in US market, leading to double digit growth
 - stronger international activity benefiting from weaker US dollar
- Increased overhead costs due to learning curve effects of using new IT systems
- Continuing strong sales and profit growth in ***FPE***

III C. Controls & Interconnect

The IS Group, Clarendon, Hawco, Sommer and Filcon are distributors of specialised wiring, connection and control devices into a range of technically demanding applications



III C. Controls & Interconnect – Highlights

- Sector sales more than doubled to £22.8m; boosted by £11.0m contribution from Hawco and Filcon; strong growth in operating profits
- Improved demand in core *IS Rayfast* business:
 - increased sales to military ground defence and marine systems
 - aerospace and export also remain strong
- *IS Motorsport* and *Clarendon* made progress in subdued markets by:
 - offering more value added services
 - accessing broader range of customers below upper tiers
- *Sommer* grew sales in tough German market:
 - acquisition of project work
 - modest recovery in background business

III C. Controls & Interconnect – Acquisitions

- *Filcon*, acquired in November 2003, will work closely with Sommer
- Plans in place to share common facility near Munich and jointly target customers by region
- Considerable progress in restructuring *Hawco*, acquired in July 2003
- Senior management team now in place:
 - newly appointed MD, promoted from within Hawco
 - new FD recruited
- Facilities have been rationalised:
 - logistics consolidated into new Bolton warehouse
 - southern based staff moving to single office location near Guildford
- Exceptional costs of £0.7m in half year, but strong base for growth

IV Prospects and Plans

- Businesses have experienced a recovery in several markets in the second quarter after slow start to financial year
- Recent acquisitions of Hawco and Filcon will assist the Group in making further progress Group in 2004
- Acquisitions remain a key element of our strategy moving forward
- Significant resource continues to be applied to identify and acquire good quality companies