

DIPLOMA PLC

The Specialised International Distribution Group

INTERIM ANNOUNCEMENT

Six months ended 31 March 2005

PRESENTATION OF HIGHLIGHTS

9 May 2005

Presentation

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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***, in the three sectors of:
 - Life Sciences
 - Seals
 - Controls
- This will be achieved by a combination of ***organic growth and acquisitions***

I Overview – Results

	Half Year ended 31 March			Full Year ended 30 Sept 2004
	2005	2004		
Turnover	£55.8m	£48.0m	+16%	£100.5m
Operating profit*	£7.5m	£5.5m	+36%	£12.3m
Profit before tax*	£7.8m	£6.0m	+30%	£13.1m
Profit before tax after exceptional items	£7.1m	£9.0m	-21%	£15.4m
Adjusted earnings per share*	23.5p	18.1p	+30%	41.2p
Dividends per share	7.0p	6.0p	+17%	17.0p

* Excluding goodwill amortisation and exceptional items

II Financial Highlights – Profit Before Tax*

Half Year ended 31 March

	2005 £m		2004 £m	
Turnover	<u>55.8</u>		<u>48.0</u>	+16.3%
Operating profit*	7.5	■	5.5	+36.4%
<i>Operating margin</i>	13.4%		11.5%	
Interest income	0.3		0.5	
Profit before tax*	<u>7.8</u>		<u>6.0</u>	+30.0%

* Excluding goodwill amortisation and exceptional items

II Financial Highlights – Profit Before Tax

Half year ended 31 March

	2005 £m	2004 £m
Profit before tax, exceptionals and goodwill	7.8	6.0
Goodwill amortisation	(0.7)	(0.3)
Exceptional items		
- Hawco restructuring	-	(0.7)
- Stamford property	-	4.0
Profit before tax	7.1	9.0

II Financial Highlights – Profit After Tax*

Half Year ended 31 March

	2005	2004	
	£m	£m	
Profit before tax*	7.8	6.0	+30.0%
Taxation*	(2.3)	(1.9)	
Profit after tax*	5.5	4.1	
Effective tax rate (excl. exceptionals)	29.5%	31.7%	
Earnings per share			
Adjusted	23.5p	18.1p	+30.0%
Basic	20.4p	27.0p	

* Excluding goodwill amortisation and exceptional items

II Financial Highlights – Free Cash Flow

	Half Year ended 31 March		
	2005	2004	
	£m	£m	
Operating profit*	7.5	5.5	
Depreciation	0.7	0.5	
Working capital	(3.0)	(1.4)	
Provisions/exceptionals	0.1	(0.4)	
Operating cash flow	5.3	4.2	+26.2%
Interest	0.3	0.5	
Taxation	(1.0)	(1.4)	
Capital expenditure	(0.7)	(0.4)	
Property proceeds	0.4	4.1	
Investment in own shares	-	(0.5)	
Free cash flow	4.3	6.5	

* Excluding goodwill amortisation and exceptional items

II Financial Highlights – Shareholders' Funds

	31 March 2005 £m	30 Sept 2004 £m
Intangible assets	22.6	23.5
Freehold properties	6.2	6.6
Other tangible assets	3.9	4.0
Total fixed assets	<u>32.7</u>	<u>34.1</u>
Net working capital (incl. dividends/tax)	17.6	15.3
Provisions	<u>(1.9)</u>	<u>(2.0)</u>
Trading Capital Employed	48.4	47.4
Net cash funds	<u>19.7</u>	<u>17.9</u>
	68.1	65.3
Less: Minority interests	<u>(1.5)</u>	<u>(1.3)</u>
Shareholders' Funds	<u>66.6</u>	<u>64.0</u>

II Financial Highlights – Key Characteristics

	Half Year 31 March 2005	Full Year 30 Sept 2004
Operating margin	13.4%	12.2%
Free Cash Flow	£4.3m	£9.6m
Return on Trading Capital Employed (including goodwill written off)	21.0% *	21.0%
Adjusted Earnings per Share	23.5p	41.2p
Dividends per Share	7.0p	17.0p
Average exchange rate		
£ : US\$	1.89	1.81
£ : €	1.44	1.48
£ : C\$	2.30	2.34

* Annualised

III Review of Operations



Life Sciences

Anachem Group (UK & Germany)
Somagen (Canada)

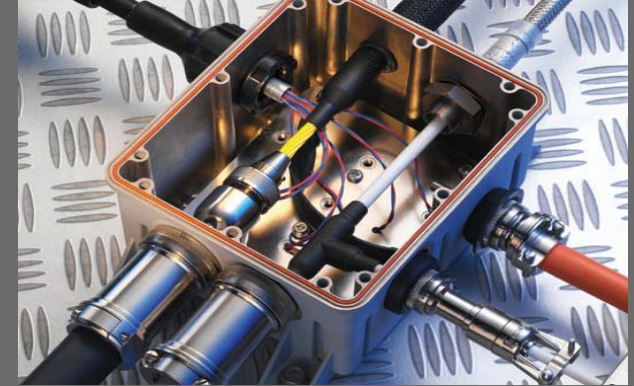
ca. 32% of Group Sales



Seals

Hercules Bulldog (US & Canada)
FPE (UK)

ca. 25% of Group sales



Controls

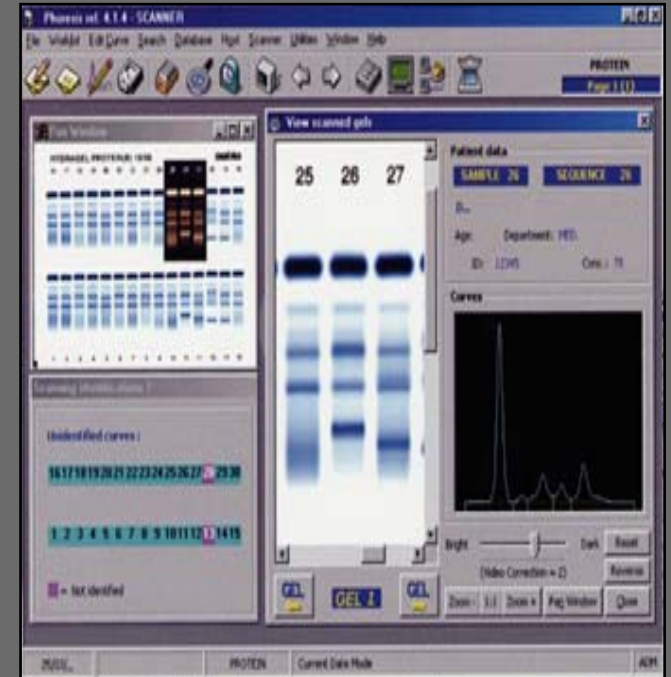
IS Group (UK)
Sommer/Filcon (Germany)
Hawco (UK)

ca. 43% of Group sales

Strong, self standing management teams are in place in the operating businesses motivated and rewarded according to their success. The Group has a small head office focused on strategy and financial control.

III (a) Life Sciences Sector

The Anachem Group and Somagen supply Instrumentation, Consumables and related Services to research, development and diagnostic laboratories.



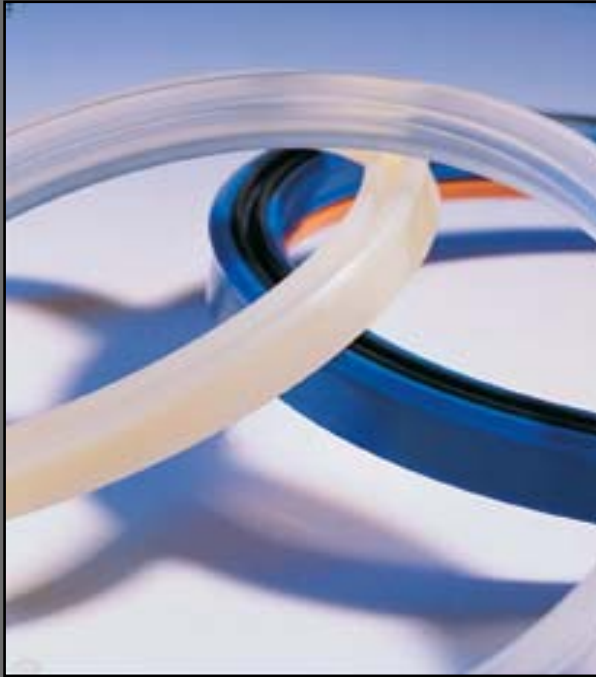
III (a) Life Sciences – Sector Highlights

Six months to 31 March (£m)	2005	2004
Sales	<u>17.7</u>	<u>12.4</u>
Operating profit	<u>2.8</u>	<u>1.6</u>
<i>Margin</i>	15.8%	12.9%

- Strong performance from Somagen acquired in July 2004; weaker trading conditions in Anachem
- **Somagen** experienced sustained demand for core diagnostic kits and increased sales of capital equipment; additional growth from new suppliers
- Adaltis successfully integrated and performing well
- **Anachem's Bioscience** consumables defended its market leadership through high levels of promotion and marketing
- *Instrumentation* business held its position; new products/software/service introductions should bolster second half
- *Environmental* business continued geographic expansion and sales to Continental Europe-now more than 50%; after slow start, strong order levels seen in second quarter

III (b) Seals Sector

Hercules Bulldog and FPE offer a next day delivery service for hydraulic seal kits, cylinder components and gaskets, for the repair and maintenance of mobile machinery.



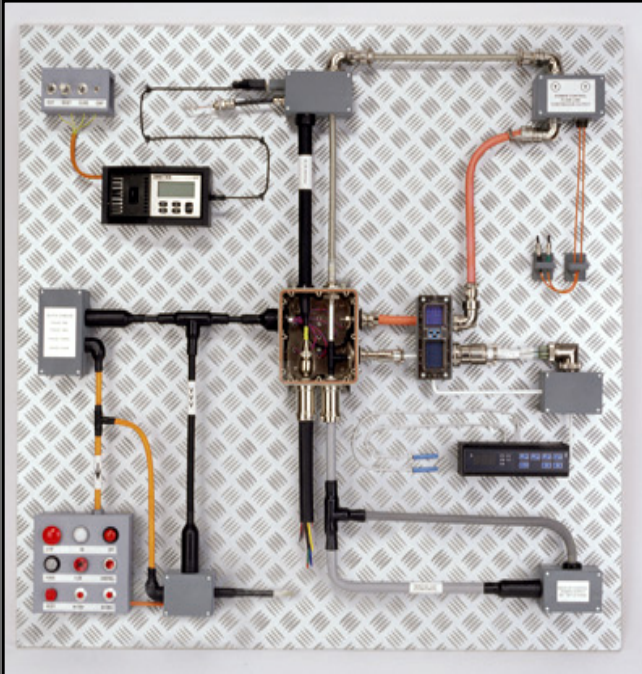
III (b) Seals – Sector Highlights

Six months to 31 March (£m)	2005	2004
Sales	<u>14.2</u>	<u>12.8</u>
Operating profit	<u>1.4</u>	<u>0.9</u>
<i>Margin</i>	<i>9.9%</i>	<i>7.0%</i>

- Sales and operating profits up 17% and 74% respectively, on constant currency basis
- **Hercules Bulldog** delivered 18% sales growth; strong demand across product groups and territories
- Strong recovery in operating margins, following major investments in IT and process improvements in 2004
- Improved delivery performance and reduced errors; stable operations
- **FPE** sales slowed in subdued UK market; major new catalogue launch planned for second half of year

III (c) Controls Sector

IS Group, Sommer/Filcon and Hawco supply specialised wiring, connectors and control devices for a range of technically demanding applications.



III (c) Controls – Sector Highlights

Six months to 31 March (£m)	2005	2004
Sales	<u>23.9</u>	<u>22.8</u>
Operating profit	<u>3.3</u>	<u>3.0</u>
<i>Margin</i>	13.8%	13.2%

- Creditable performance given strong comparable period and subdued trading levels in UK and German markets
- **IS Group** achieved modest growth in slowing UK markets; Motorsport generated increase sales
- **Sommer/Filcon** grew sales by 10% in constant currency terms; continued territorial expansion and extended coverage with cross trained sales teams
- **Hawco** sales broadly flat; markets generally sluggish though positive signs of improvement toward end of second quarter

IV Prospects and Plans

- Businesses have begun the second half of the year trading at similar levels to the first half
- Trading activity in our North American businesses continues to be strong
- UK and Continental Europe businesses have to work hard to achieve growth in sluggish markets
- Significant resource continues to be applied to identify and acquire good quality companies