

DIPLOMA PLC

The Specialised International Distribution Group

**Preliminary Announcement
Year ended 30 September 2003**

Presentation of Highlights

17 November 2003

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

I Overview - Results

	FY 03	FY 02	
Turnover from continuing businesses	£77.1m	£73.7m	+5%
Operating profit from continuing businesses*	£9.7m	£8.9m	+9%
Profit before tax*	£10.6m	£9.9m	+7%
Profit before tax	£12.7m	£10.1m	+26%
Adjusted earnings per share*	32.2p	29.4p	+10%
Dividends per share	15.0p	14.0p	+7%

* *excluding goodwill amortisation and exceptional items*

I Overview - Highlights

- Resilient performances from the operating businesses in difficult market conditions
- Further progress achieved against each of the Group's sector strategies
- Strong operating cash flow, supplemented by property sales
- Acquisition of Hawco business, and announced today, Filcon
- Implementation of major new IT system across North American operations
- Successful disposal of first parcel of Stamford land and of other surplus properties

II Financial Highlights – Profit before tax*

	2003	2002	
	£m	£m	
Turnover			
- continuing operations	73.5	73.7	
- acquisitions	3.6	-	
	<u>77.1</u>	<u>73.7</u>	+4.6%
Operating profit*			
- continuing	9.4	8.9	
- acquisitions	0.3	-	
	<u>9.7</u>	<u>8.9</u>	+9.0%
<i>Operating margin</i>	12.6%	12.1%	
Interest income	0.9	1.0	
Profit before tax*	<u>10.6</u>	<u>9.9</u>	+7.1%

*excluding goodwill amortisation and exceptional items

II Financial Highlights – Profit before tax

	2003	2002
	£m	£m
Profit before tax, exceptionals and goodwill	10.6	9.9
Goodwill amortisation	(0.3)	(0.3)
Exceptional items, net	2.4	0.5
Profit before tax	<u>12.7</u>	<u>10.1</u>

II Financial Highlights – Exceptional items

	2003	2002
	£m	£m
Operating items:		
IT implementation/US restructuring costs	(0.3)	(0.6)
Aborted acquisition costs	(0.4)	-
Release of pension provision	-	0.3
	<u>(0.7)</u>	<u>(0.3)</u>
Non-operating items:		
Profit on disposal of tangible fixed assets	3.1	1.1
Loss on sale/closure of businesses, net	-	(0.3)
	<u>3.1</u>	<u>0.8</u>
Total exceptional items before tax	2.4	0.5
Tax credit	<u>0.3</u>	<u>0.2</u>
Total exceptional items after tax	<u>2.7</u>	<u>0.7</u>

II Financial Highlights – Profit after tax*

	2003	2002	
	£m	£m	
Profit before tax*	10.6	9.9	+7.1%
Taxation*	(3.2)	(3.0)	
Profit after tax	<u>7.4</u>	<u>6.9</u>	
Effective tax rate (excl. exceptionals)	30.2%	30.3%	
Earnings per share			
Adjusted	32.2p	29.4p	+9.5%
Basic	42.8p	31.2p	

*excluding goodwill amortisation and exceptional items

II Financial Highlights – Free cash flow

	2003	2002	
	£m	£m	
Operating profit	8.7	8.3	
Depreciation and non-cash items	1.3	0.9	
Working capital	1.3	1.0	
Non-operating items	(0.2)	(0.3)	
Operating cash flow	11.1	9.9	+12.1%
Interest	0.9	1.0	
Taxation	(3.1)	(2.9)	
Capital receipts, net	3.1	1.7	
Free cash flow	<u>12.0</u>	<u>9.7</u>	

II Financial Highlights – Net funds

	2003	2002
	£m	£m
Free cash flow	12.0	9.7
Acquisitions	(6.1)	(2.2)
Equity dividends	(3.2)	(3.0)
Return of capital	-	(8.5)
	<u>2.7</u>	<u>(4.0)</u>
Loan Notes	(0.4)	(0.8)
	<u>2.3</u>	<u>(4.8)</u>
Movement in net funds	2.3	(4.8)
Funds brought forward	26.9	31.7
Exchange	0.1	-
Net funds at 30 September	<u>29.3</u>	<u>26.9</u>

II Financial Highlights – Shareholders' funds

	2003	2002
	£m	£m
Intangible assets	8.2	4.8
Tangible assets	9.3	9.8
	<u>17.5</u>	<u>14.6</u>
Net working capital (inc.divs/tax)	11.4	10.5
Provisions/minorities	(1.1)	(1.1)
Trading capital employed	27.8	24.0
Net funds	<u>29.3</u>	<u>26.9</u>
Shareholders' funds	<u>57.1</u>	<u>50.9</u>
<i>ROTCE</i>	21.6%	20.3%
<i>WC/sales</i>	13.4%	12.8%

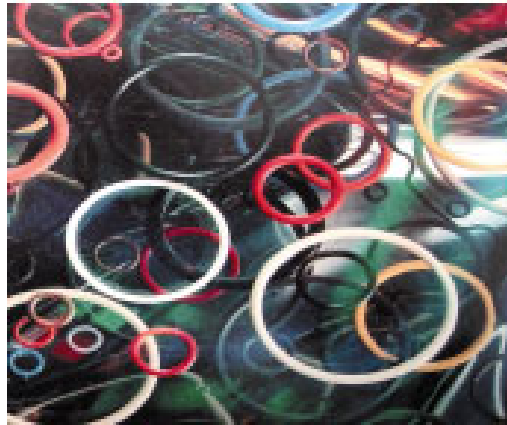
III Review of Operations



Life Sciences

Anachem
a1-Envirotech

**32% of
Group sales**



Seals & Components

Hercules Bulldog Sealing
Products
Fluid Power Equipment

**36% of
Group sales**



Controls & Interconnect

IS Rayfast
IS Motorsport
Clarendon
Hawco
Sommer

**32% of
Group sales**

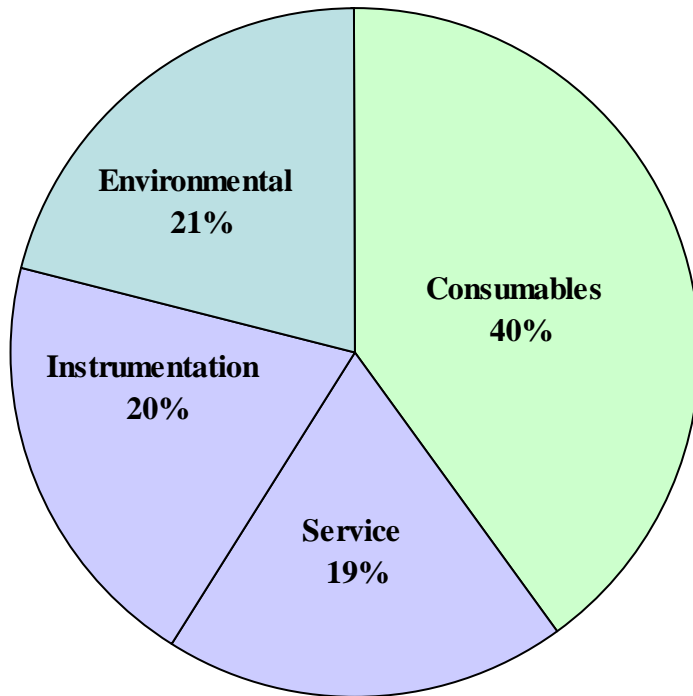
III Life Sciences Sector

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

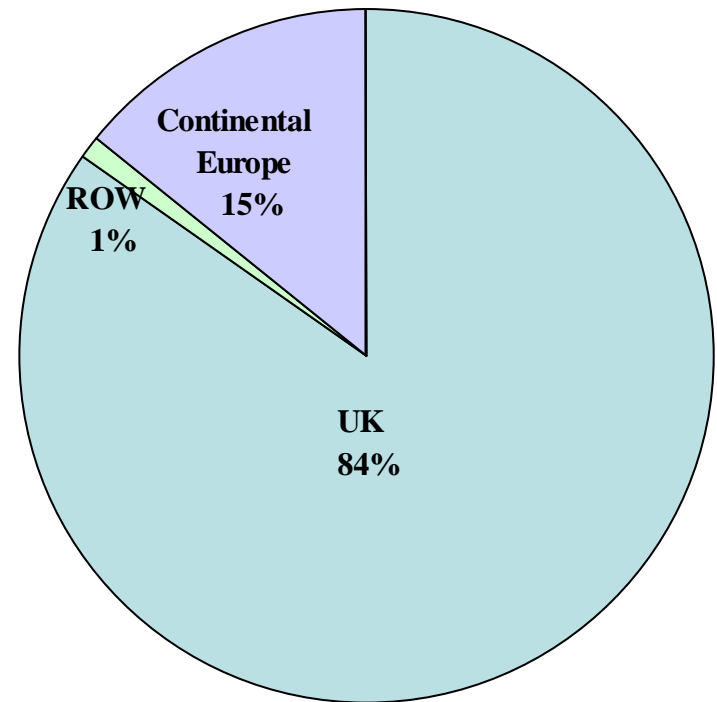


III Life Sciences – Segment breakdown

Products/Markets



Geography*



**By destination*

III Life Sciences – Highlights

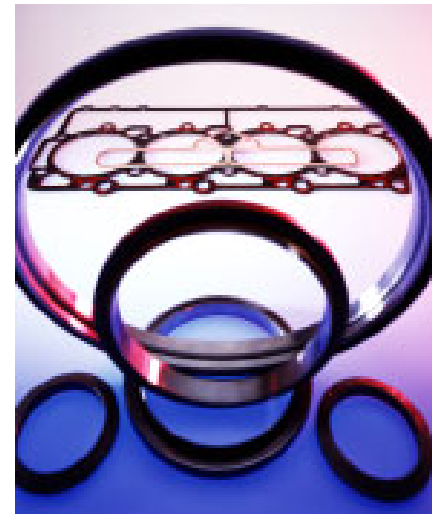
- Sector has good long term growth prospects, but past year has been challenging
- Sales of £25m compared with £26.9m – shortfall due to a1-biotech rationalisation
- Improved gross margins and reduced overheads led to a modest increase in operating profits
- Steady performance from *Consumables* business – new Ultra pipette launched
- Extended scope and range of *Service* offerings
- Growing *Environmental* business – increase in sales of ca. 20% with particularly strong growth in Continental Europe
- Budget constraints of major customers have impacted *Instrumentation* sales – but severity of downturn may have eased

III Seals & Components Sector

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

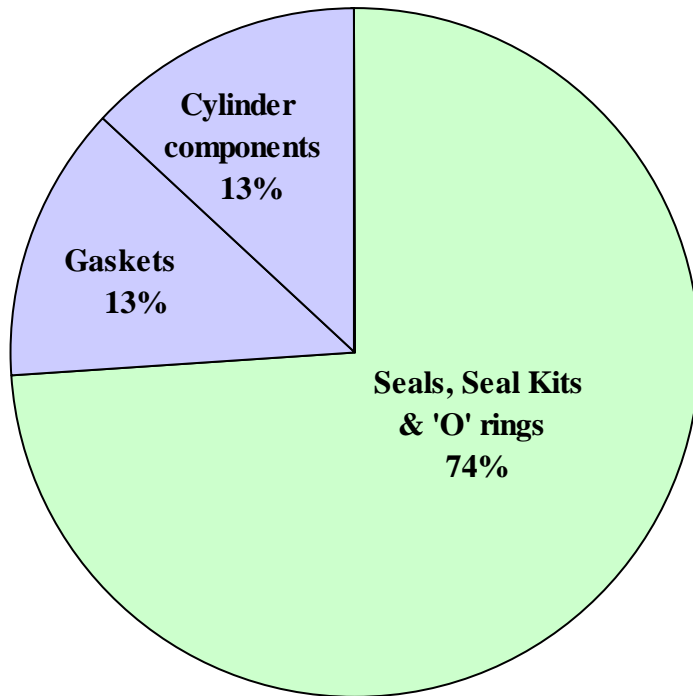


HERCULES
BULLDOG
SEALING PRODUCTS

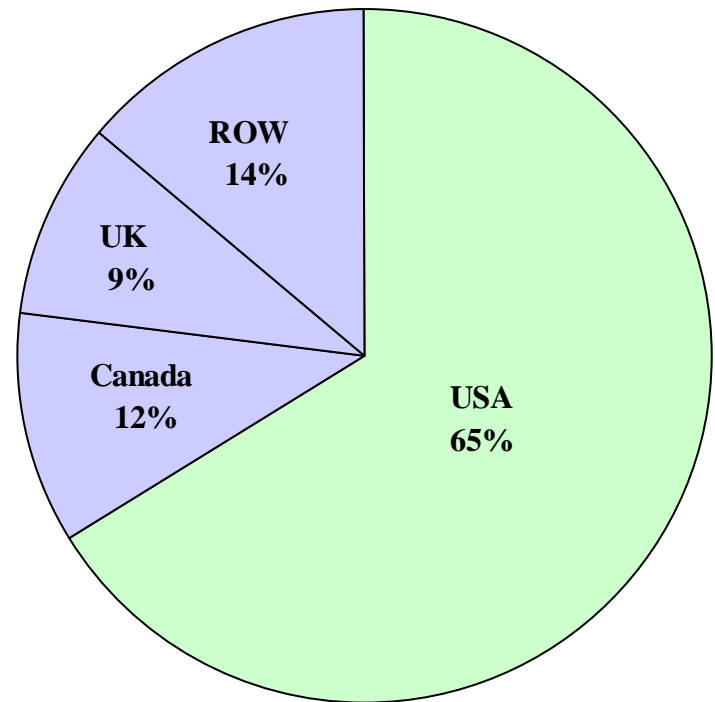


III Seals & Components – Segment breakdown

Products



Geography*



**By destination*

III Seals & Components - Highlights

- Sector sales increased by 5% on a constant currency basis with modest increase in operating profits
- In sterling terms, sales and profits down 3% due to adverse impact of US dollar depreciation
- ***Hercules Bulldog*** maintained sales in a soft US market by providing superior service and added value services
- In international markets, growth was achieved through cross-selling of Hercules and Bulldog product ranges
- Major new ERP computer system now operational in all five North American locations
- FPE grew sales by over 10% and delivered excellent growth – new “hard parts” range launched

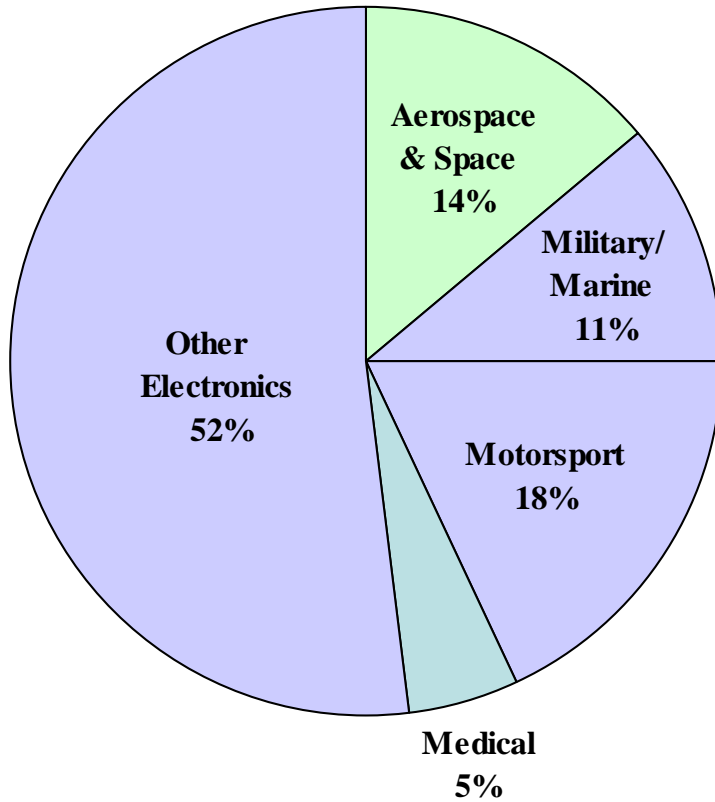
III Controls & Interconnect Sector

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

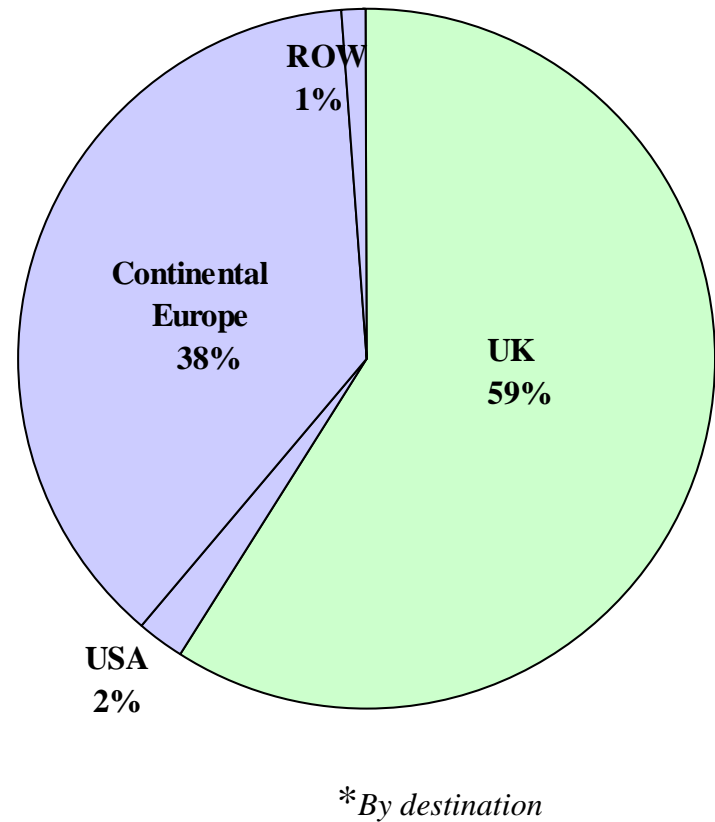


III Controls & Interconnect – Segment breakdown

Markets



Geography*



III Controls & Interconnect – Highlights

- Sector sales up 33% to £24.7m from £18.6m and operating profits increased by 20%
- Benefit from acquisitions, but organic growth of over 10% in both sales and operating profits
- Improved demand in core *IS Rayfast* business with increased sales to military customers and civil aircraft repair and refurbishment sector
- *IS Motorsport* and *Clarendon* recorded modest sales gains in challenging Motorsport markets by increasing sales to IRL and CART series and providing value added services
- *Sommer* achieved strong sales growth in a severely depressed German market with *Dowatronic* improving access to space and defence markets

III Controls & Interconnect – Acquisitions

- 95% of *Hawco* acquired at end July 2003 – maximum net cash cost of £6.3m
- Hawco is a distributor of a broad range of devices used in the measurement and control of temperature and pressure
- 2002 sales and operating profits of £16.9m and £1.3m respectively
- 100% of *Filcon* acquired today – maximum net cash cost of £4.1m
- Filcon is a supplier of specialist connectors to defence and aerospace markets in Germany and is a natural extension to Sommer's business
- 2002 sales and operating profit of €12m and €1.4m respectively – boosted by Eurofighter related orders

IV Prospects and Plans

- Current trading conditions remain difficult and signs of economic recovery are patchy
- Operating businesses are meeting expectations and continue to demonstrate their inherent resilience
- Recent acquisition of Hawco and Filcon will contribute to further progress of the Group in 2004
- Acquisitions remain an important element of our strategy moving forward
- Significant resource will continue to be applied to identify and acquire good quality companies