

DIPLOMA PLC

The Specialised International Distribution Group

PRELIMINARY ANNOUNCEMENT

Year ended 30 SEPTEMBER 2005

PRESENTATION OF HIGHLIGHTS

14 NOVEMBER 2005

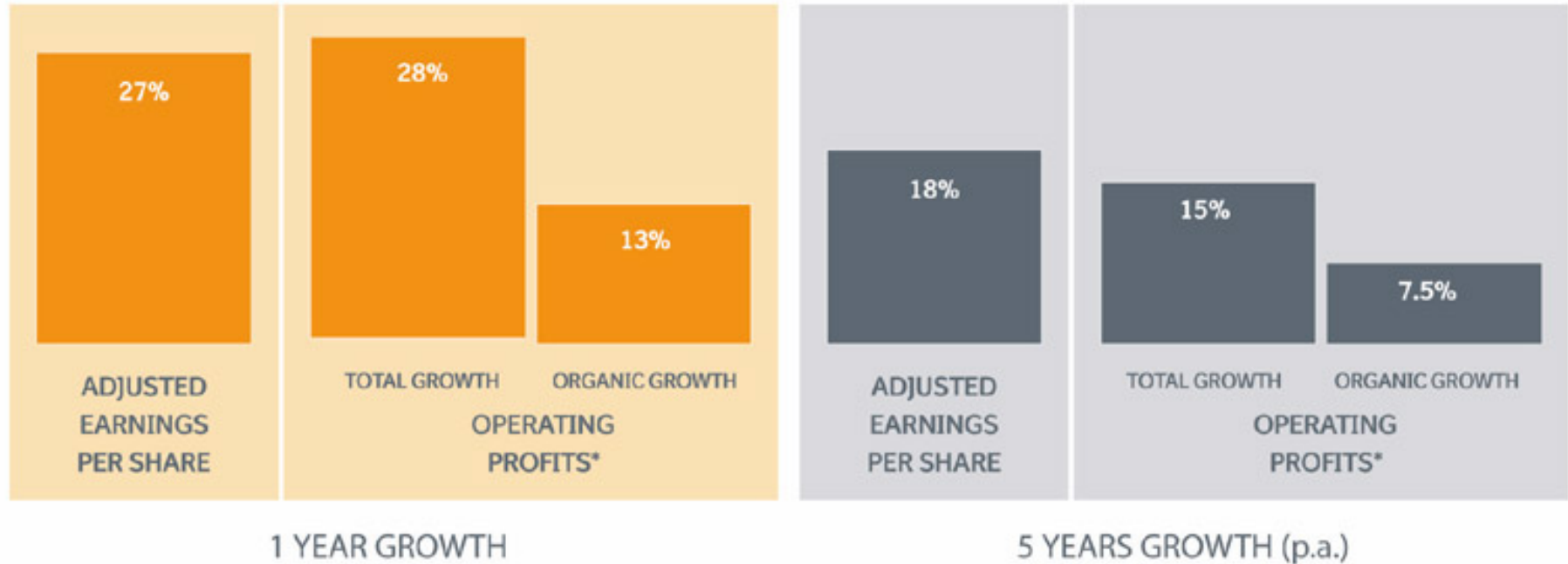
Presentation

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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 – Organic Growth and Acquisition



* For continuing businesses, on a constant currency basis, before head office expenses

Year ended 30 September

	2005	2004	
Turnover	£111.3m	£100.5m	+11%
Operating profit*	£15.9m	£12.3m	+29%
Profit before tax*	£16.6m	£13.1m	+27%
Profit before tax after exceptional items	£15.3m	£15.4m	-1%
Adjusted earnings per share*	52.4p	41.2p	+27%
Dividends per share	20.0p	17.0p	+18%

* Excluding goodwill amortisation and exceptional items

II Financial Highlights – Profit Before Tax*

Year ended 30 September

	2005 £m		2004 £m	
Turnover	<u>111.3</u>		<u>100.5</u>	+11%
Operating profit*	15.9	■	12.3	+29%
<i>Operating margin</i>	<i>14.3%</i>		<i>12.2%</i>	
Interest income	0.7		0.8	
Profit before tax*	<u>16.6</u>		<u>13.1</u>	+27%

* Excluding goodwill amortisation and exceptional items

II Financial Highlights – Profit Before Tax

Year ended 30 September

	2005 £m	2004 £m
Profit before tax, exceptionals and goodwill	16.6	13.1
Goodwill amortisation	(1.3)	(0.8)
Exceptional items		
- Hawco/Anachem restructuring	-	(0.8)
- Stamford property sale	-	3.9
Profit before tax	15.3	15.4

II Financial Highlights – Profit After Tax

Year ended 30 September

	2005	2004	
	£m	£m	
Profit before tax	15.3	15.4	
Taxation	(4.4)	(3.3)	
Profit after tax	10.9	12.1	
Effective tax rate (excl. exceptionals)	28.8%	29.3%	
Earnings per share			
Adjusted	52.4p	41.2p	+27%
Basic	46.6p	52.7p	

II Financial Highlights – Free Cash Flow

	Year ended 30 September	
	2005	2004
	£m	£m
Operating profit*	15.9	12.3
Depreciation	1.5	1.2
Working capital	(1.8)	(2.1)
Provisions/exceptionals	0.8	(0.7)
Operating cash flow	16.4	10.7
Interest	0.7	0.8
Taxation	(3.7)	(3.9)
Capital expenditure	(1.4)	(1.5)
Property proceeds	0.4	4.0
Investment in own shares	(0.5)	(0.5)
Free cash flow	11.9	9.6

* Excluding goodwill amortisation and exceptional items

II Financial Highlights – Shareholders' Funds

	30 Sept 2005 £m	30 Sept 2004 £m
Intangible assets	23.3	23.5
Freehold properties	6.3	6.6
Other tangible assets	4.1	4.0
Total fixed assets	<u>33.7</u>	<u>34.1</u>
Net working capital (incl. dividends/tax)	16.4	15.3
Provisions	<u>(1.6)</u>	<u>(2.0)</u>
Trading Capital Employed	48.5	47.4
Net cash funds	<u>25.7</u>	<u>17.9</u>
	74.2	65.3
Less: Minority interests	<u>(1.7)</u>	<u>(1.3)</u>
Shareholders' Funds	<u>72.5</u>	<u>64.0</u>

II Financial Highlights – Key Measures

6.9	2001	13.3	2001	21.7	2001
9.7	2002	12.1	2002	20.3	2002
12.0	2003	12.6	2003	21.6	2003
9.6	2004	12.2	2004	21.0	2004
11.9	2005	14.3	2005	22.2	2005

FREE CASH FLOW
(£m)

**OPERATING
MARGIN (%)**

**RETURN ON TRADING
CAPITAL EMPLOYED
(inc. goodwill) (%)**

III (a) Life Sciences Sector

Life Sciences

Distributors of instrumentation, consumables and related services to research, development and diagnostic laboratories.

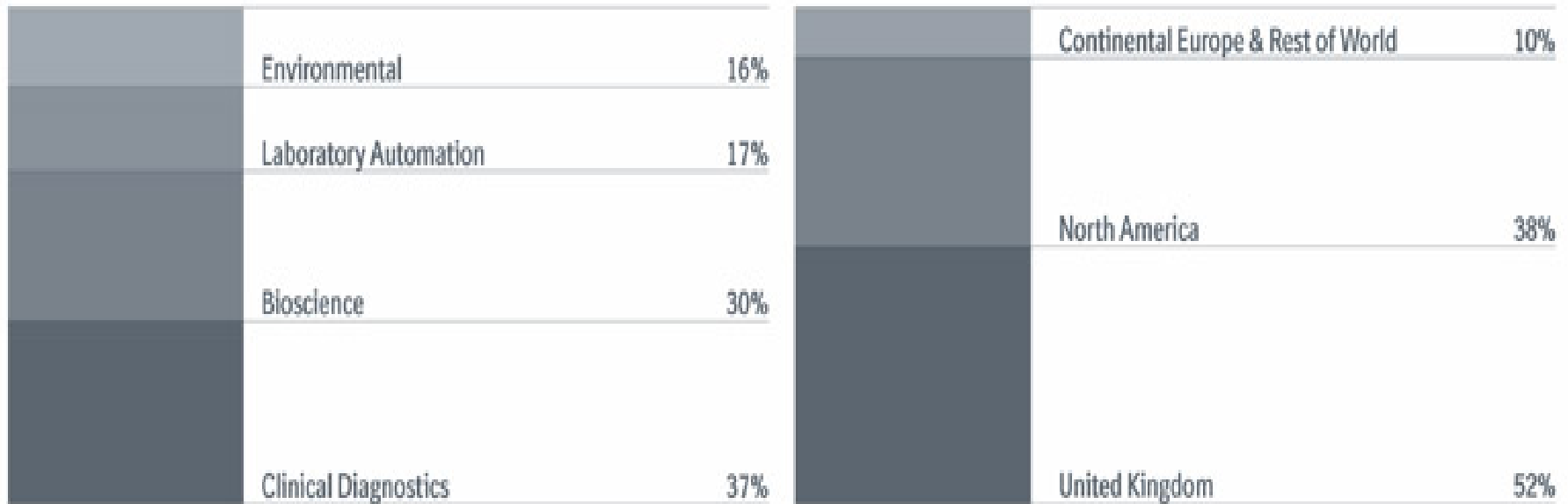
Businesses
Anachem Group
Somagen

Sales
£34.7m
(2004: £26.0m)

Operating profit
£4.7m
(2004: £3.5m)



III (a) Life Sciences – Sector Sales Breakdown



CUSTOMERS

GEOGRAPHY*

* By destination

III (a) Life Sciences – Sector Highlights

Year ended 30 September (£m)	2005	2004
Sales	<u>34.7</u>	<u>26.0</u>
Operating profit	<u>4.7</u>	<u>3.5</u>
<i>Margin</i>	<i>13.6%</i>	<i>13.5%</i>

- **Somagen** made a very strong contribution in first full year; like for like sales growth exceeded 25%
- Capital equipment sales strong; new products launched; Adaltis successfully integrated and performing well
- **Anachem's Bioscience** consumables maintained market leadership with increased sales and marketing resource and new products
- *Instrumentation* business stabilised after several years of decline; new products/software/service introductions should improve competitiveness of product offering
- *a1 envirosciences group* continued geographic expansion and established an operation in Switzerland. UK and German business boosted by strong demand from Petrochemical sector.

III (b) Seals Sector

Seals

Next day delivery of hydraulic seal kits, gaskets and cylinder components for the repair and maintenance of mobile machinery.

Businesses

Hercules Bulldog Sealing Products
FPE

Sales

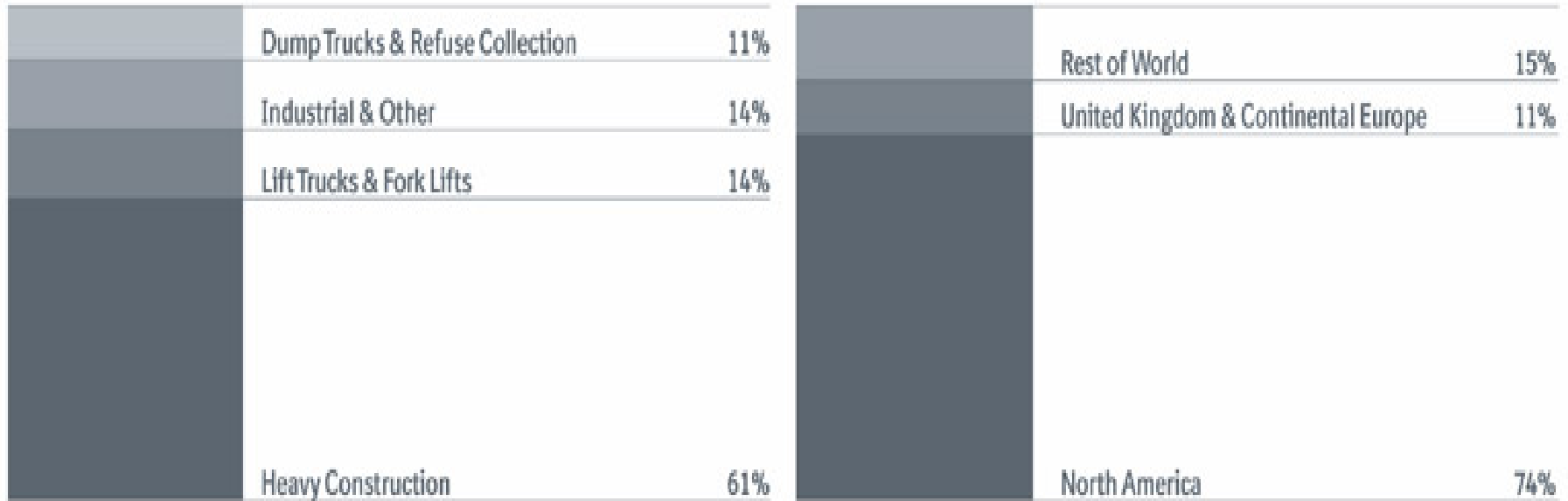
£27.6m
(2004: £27.4m)

Operating profit

£4.0m
(2004: £2.4m)



III (b) Seals – Sector Sales Breakdown



CUSTOMERS

GEOGRAPHY*

* By destination

III (b) Seals – Sector Highlights

Year ended 30 September (£m)	2005	2004
Sales	<u>27.6</u>	<u>27.4</u>
Operating profit	<u>4.0</u>	<u>2.4</u>
<i>Margin</i>	<i>14.5%</i>	<i>8.8%</i>

- **Hercules Bulldog** took full advantage of favourable economic environment in North America; strong demand across product groups and territories
- Operating margins improved substantially benefiting from major investments made in the operations and in the new IT infrastructure; these led to increased service levels and operating efficiency
- Development of new lightweight, competitively priced cylinders imported from China
- Strong growth in **Canada**, particularly Quebec and Edmonton
- **FPE** sales slowed in sluggish UK market; major new catalogue will be launched in the new year

III (c) Controls Sector

Controls

Distributors of specialised wiring, connectors and control devices for a range of technically demanding applications.

Businesses
IS Group
Hawco

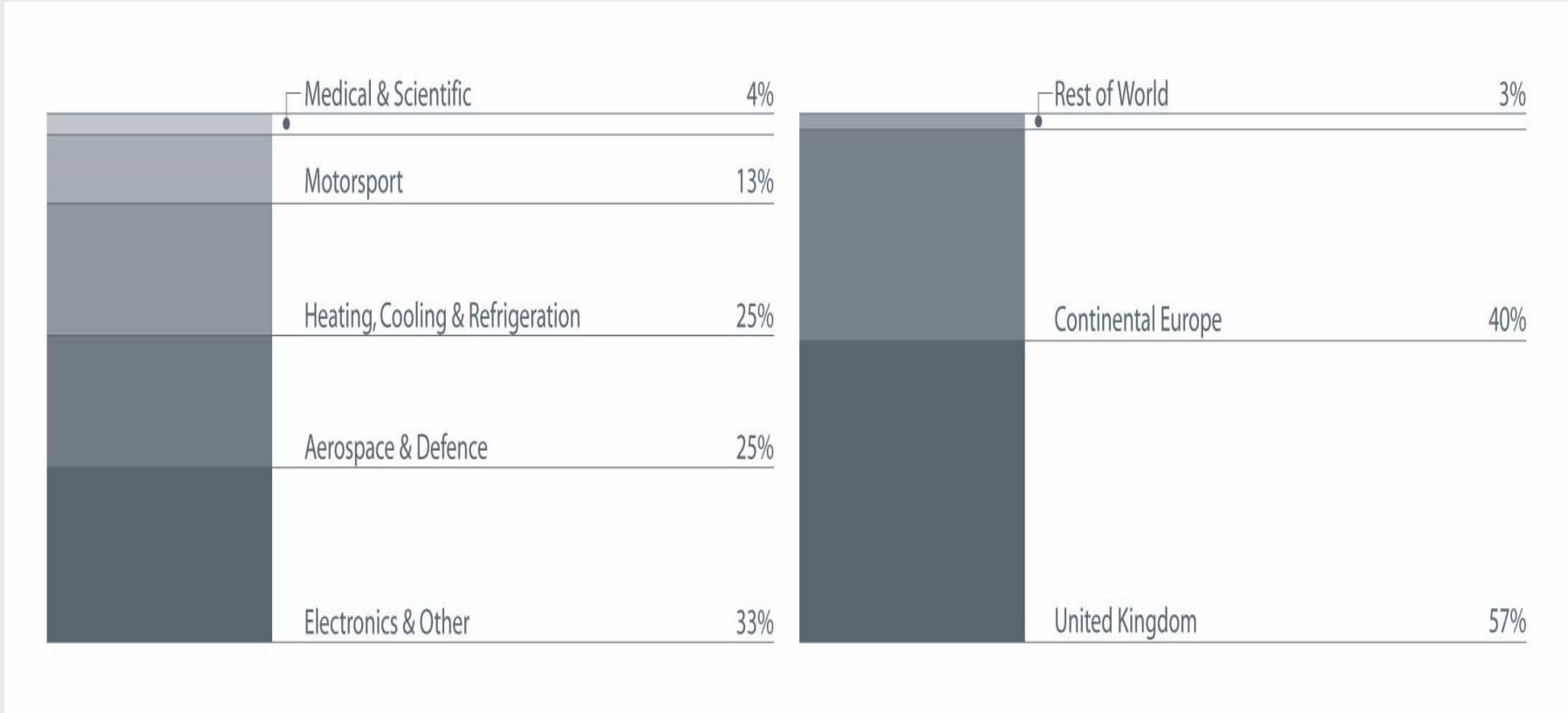
Sommer
and Filcon

Sales
£49.0m
(2004: £47.1m)

Operating profit
£7.2m
(2004: £6.4m)



III (c) Controls – Sector Sales Breakdown



CUSTOMERS

GEOGRAPHY*

* By destination

III (c) Controls – Sector Highlights

Year ended 30 September (£m)	2005	2004
Sales	<u>49.0</u>	<u>47.1</u>
Operating profit	<u>7.2</u>	<u>6.4</u>
<i>Margin</i>	14.7%	13.6%

- **Sommer/Filcon** performed strongly and continued steady geographic expansion within Germany
- Well positioned to support important military projects – e.g. Tornado, Eurofighter, Tiger, NH90
- **IS Group** experienced a sluggish UK manufacturing environment but specialised defence markets were more resilient
- Motorsport sector stabilised and boosted by launch of new A1 Grand Prix series
- **Hawco** achieved modest growth in Refrigeration and Cooling sectors; other sectors were exposed to general slow down in UK manufacturing

IV Prospects and Plans

- Outlook for our markets in 2006 are somewhat mixed
- Markets in North America remain positive and continue to show growth
- Market conditions in the UK and Germany remain tough and competitive
- We will continue to deliver value for shareholders through:
 - improving operational performance
 - investing for organic growth
 - pursuing high quality acquisitions