

| 16 November 2009

Preliminary Announcement
Year ended 30 September 2009

DIPLOMA PLC

DIPLOMA PLC |

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I Overview of Results

Overview of Results

Continuing businesses*	Year ended 30 September		
	2009	2008	
Revenue	£160.0m	£156.2m	+2%
Operating profit	£25.6m	£26.6m	-4%
Operating margin	16.0%	17.0%	
Adjusted profit before tax	£25.5m	£26.8m	-5%
Free cash flow	£23.5m	£17.7m	+33%
Adjusted earnings per share	14.8p	16.0p	-8%
Total dividends per share	7.8p	7.5p	+4%

* excluding Anachem, now a discontinuing business

Overview of Results

- Resilient revenue and profit performance and strong cash flow
- Continuing revenue increased by 2% and operating profit reduced by 4%; operating margins held to a robust 16%
- Underlying revenues and operating profits down by 12% and 10% respectively; after adjusting for currency, acquisitions and one-off items
- Total headcount and monthly salary costs reduced by 10% and 6% respectively
- Strong free cash flow of £23.5m; cash funds of £21.3m at year end; total dividends up 4% to 7.8p
- Contracts exchanged for disposal of Anachem MLH business for up to £8.6m; now treated as discontinuing business

Financial KPIs – 5 year trends

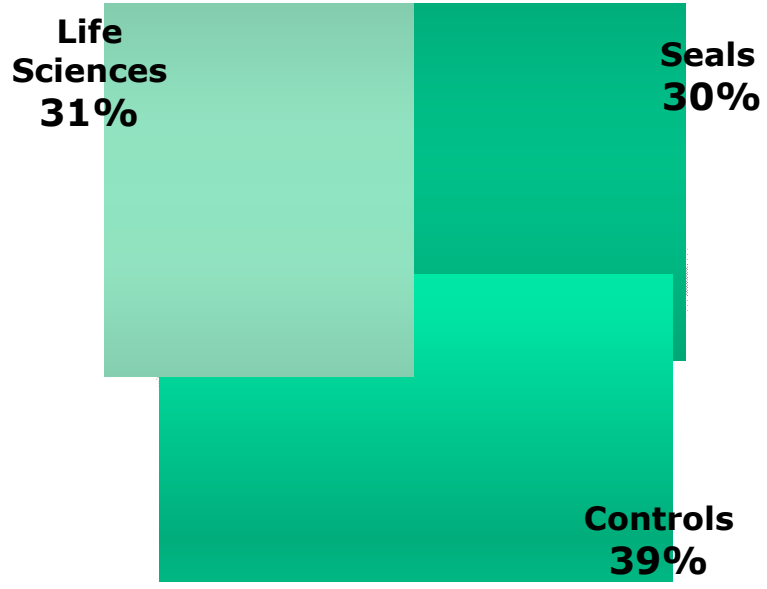
Continuing Businesses	2009	2008	2007	2006	2005
Revenue	£160.0m	£156.2m	£124.5m	£112.1m	£95.3m
<i>-% growth</i>	+2%	+25%	+11%	+18%	+15%
Operating margin	16.0%	17.0%	16.6%	16.1%	15.7%
Free cash flow*	£23.5m	£17.7m	£11.4m	£11.8m	£11.7m
<i>-% of PAT</i>	131%	93%	75%	86%	103%
ROTCE	19.0%	22.4%	25.5%	25.1%	23.0%

* excluding the sales of surplus land and buildings

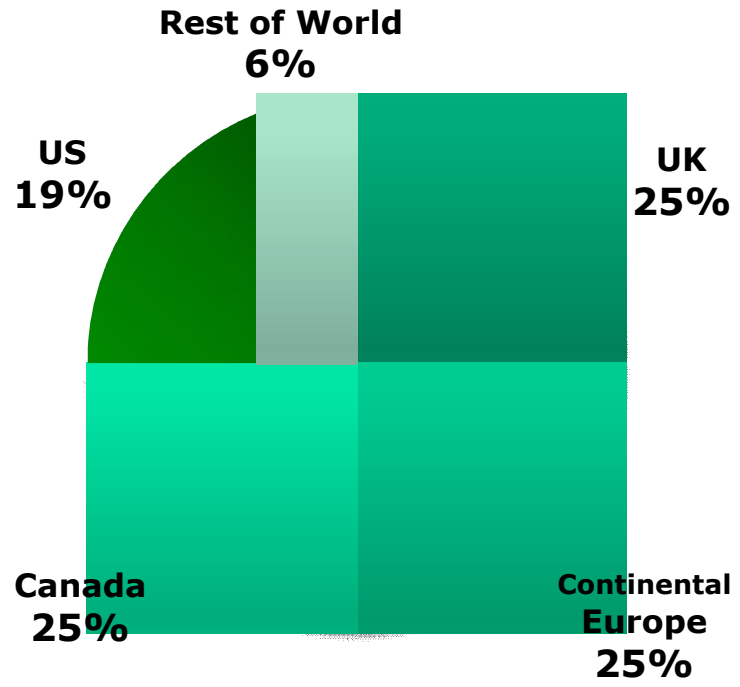
II Business Review

Segment Analysis

Revenue by sector



Revenue by geography



Life Sciences – Results

Year ended 30 September	2009	2008	
Revenue	£49.9m	£45.0m	+11%
Operating profit	£10.6m	£8.6m	+23%
Operating margin	21.2%	19.1%	
Free cash flow	£7.6m	£6.8m	+12%

- DCHI increased revenues by 10% in Canadian dollars; 20% in UK sterling:
 - strong underlying supplies business
 - capital equipment sales focus on automation and operational efficiency
 - exceptional order for face shields related to swine flu
- Environmental business saw 9% reduction in revenues:
 - consumables and service stable
 - customers deferring expenditure on capital equipment

Life Sciences – Sector developments

- Good success for DCHI in renewing existing supplier contracts and targeting new contracts
- Bolt-on acquisition of Meditech completed in November 2008; established DCHI as leading supplier to growing IVF market
- Environmental business restructured to increase focus on growth segments and to reduce costs
- Contracts exchanged for sale of Anachem MLH business for up to £8.6m; due to complete in January 2010

Seals – Results

Year ended 30 September	2009	2008	
Revenue	£48.2m	£42.6m	+13%
Operating profit	£5.5m	£6.7m	-18%
Operating margin	11.4%	15.7%	
Free cash flow	£8.6m	£4.9m	+76%

- “ Underlying sector revenues decreased by 21%, after adjusting for currency effects and acquisitions
- “ Businesses responded quickly and decisively, reducing headcount by 15% and monthly operating costs by 9%
- “ Operating margins reduced due to operational leverage
- “ Working capital reduced sharply giving strong free cash flow; up 76% to £8.6m

Seals – Sector developments

- Core Aftermarket business showed resilience; sales to industrial OEMs and dealers more depressed
- Focused marketing initiatives to increase market share during the downturn
- Completed installation of new warehouse automation and carousel system
- Continued investment in Hercules Europe with new facility, inventory and catalogues in four languages
- Acquisition of RTD Seals completed for a consideration of £10.1m:
 - positive contribution to operating profits in very difficult trading conditions
 - well positioned to gain early benefit from market recovery

Controls – Results

Year ended 30 September	2009	2008	
Revenue	£61.9m	£68.6m	-10%
Operating profit	£9.5m	£11.3m	-16%
Operating margin	15.3%	16.5%	
Free cash flow	£8.9m	£8.3m	+7%

- Revenues reduced by 15% on a constant currency basis, with Germany following the UK into recession
- Cost reduction programmes implemented; headcount and monthly operating costs reduced by 10% and 8% respectively
- Strong free cash flow of £8.9m

Controls – Sector developments

- Continued focus on more specialised, technology driven market segments
- Core Defence and Military Aerospace markets remained strong – in particular, repair, refurbishment and upgrade programmes
- Motorsport, Commercial Aerospace and Industrial markets impacted by general economic slowdown
- Progress made in building a more substantial integrated business around IS Group
 - alignment of product portfolio under single management team
 - cross – European sales initiatives
 - integrated purchasing and stock management

III Financial Highlights

Profit Before Tax

Year ended 30 September

	Continuing £m	Discontinuing £m	2009 Total £m	2008 Total £m	
Revenue	<u>160.0</u>	<u>15.7</u>	<u>175.7</u>	<u>172.3</u>	+2%
Operating profit	25.6	1.2	26.8	27.3	-2%
<i>Operating margin</i>	16.0%	7.6%	15.3%	15.8%	
Finance (expense)/income	<u>(0.1)</u>	<u>-</u>	<u>(0.1)</u>	<u>0.2</u>	-
Adjusted profit before tax	25.5	1.2	26.7	27.5	-3%
Add back: Amortisation of intangibles	(3.1)	-	(3.1)	(2.7)	
Fair-value remeasurements	(1.9)	-	(1.9)	(3.0)	
IFRS Profit before tax	<u>20.5</u>	<u>1.2</u>	<u>21.7</u>	<u>21.8</u>	-
Adjusted EPS	14.8p	0.8p	15.6p	16.4p	
Basic EPS	10.8p	0.8p	11.6p	11.8p	

Profit Before Tax - Continuing Businesses

	Year ended 30 September		
	2009 £m	2008 £m	
Revenue	160.0	156.2	+2%
Operating profit	25.6	26.6	-4%
<i>Operating margin</i>	<i>16.0%</i>	17.0%	
Finance (expense)/income	(0.1)	0.2	
Adjusted profit before tax	25.5	26.8	-5%
Amortisation of acquisition intangibles	(3.1)	(2.7)	
Fair value remeasurements	(1.9)	(3.0)	
IFRS profit before tax	20.5	21.1	- 3%

Underlying Results - Continuing Businesses

	Revenue £m	Operating Profit £m
As reported	160.0	25.6
Forex - translation	(14.8)	(2.4)
- transaction	-	1.3
	145.2	24.5
Acquisition - RT Dygert	(6.9)	(0.7)
- Meditech	(1.1)	(0.3)
- Hitek	(0.4)	(0.2)
	136.8	23.3
One-off items, net	-	0.6
	136.8	23.9
Movement in underlying results	-12%	-10%
FY2008	£156.2m	£26.6m

Profit After Tax - Continuing Businesses

	Year ended 30 September		
	2009 £m	2008 £m	
Profit before tax	20.5	21.1	
Taxation	<u>(7.1)</u>	<u>(7.2)</u>	
Profit after tax	<u>13.4</u>	<u>13.9</u>	
Effective tax rate on operations	29.8%	29.1%	
Earnings per share			
Adjusted	14.8p	16.0p	-8%
IFRS Basic	10.8p	11.4p	-5%

Free Cash Flow

	Year ended 30 September	
	2009	2008
	£m	£m
Operating profit	25.6	26.6
Depreciation	2.2	2.2
Working capital	6.1	(1.3)
Pension and share schemes, net	0.3	0.3
Operating cash flow	34.2	27.8
Interest	-	-
Taxation	(9.0)	(7.8)
Capital expenditure	(1.8)	(1.6)
Property proceeds	0.1	0.2
Purchase of own shares	-	(0.9)
Free cash flow - continuing	23.5	17.7
- discontinuing	1.7	0.3
	25.2	18.0

Cash Funds

	Year ended 30 September	
	2009 £m	2008 £m
Free cash flow	25.2	18.0
Acquisition cash paid	(11.1)	(7.6)
Deferred consideration paid	(1.1)	(0.3)
Dividends	(9.1)	(7.8)
	3.9	2.3
Cash funds brought forward	15.7	12.4
Exchange movement	1.7	1.0
Cash funds	21.3	15.7

Shareholders' Funds

As at 30 September

	2009	2008
	£m	£m
Goodwill	59.6	51.6
Acquisition intangible assets	21.2	18.6
Tangible assets	12.4	12.8
	<u>93.2</u>	<u>83.0</u>
Net working capital	28.1	28.6
Trading capital employed	121.3	111.6
Business held for sale, net	1.9	-
Retirement benefit obligations	(4.7)	(1.7)
Deferred tax, net	(2.0)	(3.3)
Future purchase of minorities	(13.1)	(11.2)
Deferred consideration	(0.6)	(1.1)
Cash funds	21.3	15.7
	<u>124.1</u>	<u>110.0</u>
less: Minority interests	(2.7)	(1.9)
Total shareholders' equity	121.4	108.1

IV Outlook and Prospects

Outlook and Prospects

- In 2009, the Group has delivered a resilient revenue and profit performance and strong cash flow in a severe recessionary environment
- 2010 financial year will continue to be challenging; not planning for early recovery in trading activity
- The Group remains confident in the resilience of its model and the strength of its cash flow
- The Group is well positioned to take advantage of growth opportunities which should come from market recovery