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Interim Announcement
Six months ended 31 March 2011

DIPLOMA PLC

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I Overview of Results

Overview of Results

	Six months ended 31 March		
	2011	2010	
Revenue	£112.6m	£86.2m	+31%
Adjusted operating profit	£22.1m	£14.6m	+51%
Adjusted operating margin	19.6%	16.9%	
Adjusted profit before tax	£21.9m	£14.6m	+50%
Free cash flow	£7.3m	£16.6m	
Adjusted earnings per share	13.2p	8.4p	+57%
Dividend per share	3.5p	2.8p	+25%

Overview of Results

- Revenues increased by **31%** to **£112.6m** as strengthening trends in 2010 continued into 2011
- Adjusted operating profit increased by **51%** to **£22.1m**; record operating margin of **19.6%**
- Underlying revenue and operating profits increased by **21%** and **39%** respectively
- Investment in working capital in first half; strong free cash flow forecast for second half
- Net debt of **£0.9m** at end of period, after investing **£27.4m** in acquiring businesses and minority interests
- Interim dividend increased by **25%** to **3.5p** per share.

II Review of Operations

Life Sciences – Overview

Suppliers of consumables, instrumentation and related services to clinical, environmental and industrial applications

Six months ended 31 March	2011	2010	
Revenue	£36.9m	£26.9m	+37%
Operating profit	£8.6m	£5.9m	+46%
Operating margin	23.3%	21.9%	

Adjusting for the acquisitions of BGS and CMI and currency translation benefits, sector revenues increased by 16%

Life Sciences – Half Year Highlights

- **DCHI** Group increased revenues by **35%**; underlying growth of **13%**
- Strong capital sales across the businesses:
 - Histology systems in traditional laboratory business
 - Newer markets such as ART, pathology research and microbiology
 - Argon and Barrx systems in GI Endoscopy business
- Large one-off order for face shields boosted consumable revenues
- Strong performance from new acquisitions:
 - CMI acquired in December 2010
 - BGS acquired in July 2010
- **a1-group** increased revenues by **21%** and improved margins following 2010 restructuring

Seals – Overview

Suppliers of hydraulic seals, rubber products, gaskets, cylinders and attachment kits for heavy mobile and industrial machinery

Six months ended 31 March	2011	2010	
Revenue	£37.5m	£26.3m	+43%
Operating profit	£6.6m	£3.2m	+106%
Operating margin	17.6%	12.2%	

Adjusting for the acquisition of All Seals and currency translation effects, sector revenues increased by 30%

Seals – Half Year Highlights

- The **Aftermarket** businesses saw strong growth with revenues **30%** ahead of prior year and also ahead of 2008 peak levels
- Market share gains based on excellent service delivery:
 - Investment in Seals-on-Demand machines
 - Increasing take-up of e-commerce
 - Good product availability from investment in inventory
- The **Industrial OEM** businesses continued strong growth trends with revenues up by **30%**
- Strong initial contribution from All Seals, acquired in September 2010
- **Operating margins** benefited strongly from operational leverage as increase in resources lagged revenue increase

Controls – Overview

Suppliers of specialised wiring, connectors, fasteners and control devices for a range of technically demanding applications

Six months ended 31 March	2011	2010	
Revenue	£38.2m	£33.0m	+16%
Operating profit	£6.9m	£5.5m	+25%
Operating margin	18.1%	16.7%	

Adjusting for currency translation effects, sector revenues increased by 17%.

Controls – Half Year Highlights

- **UK Controls** improved revenues by **21%**:
 - Good growth in Civil Aerospace, Motorsport and Energy
 - Strong performance in General Industrial, now back to 2008 levels
 - Lower demand in Defence, affected by SDSR
 - Supply of energy efficient components to Commercial Refrigeration
- **German Controls** revenues increased by **8%** in Euro terms:
 - General Industrial the strongest performer with improved economic activity and export performance
 - Energy, Civil Aerospace and Motorsport buoyant; solid performance in Medical
 - Added value capabilities improved with new cut and slit machine
 - Defence projects under pressure from budget cuts and delays

III Financial Highlights

Profit Before Tax

	Six months ended 31 March		
	2011 £m	2010 £m	
Revenue	112.6	86.2	+31%
Adjusted operating profit	22.1	14.6	+51%
<i>Operating margin</i>	<i>19.6%</i>	<i>16.9%</i>	
Net finance expense	(0.2)	-	
Adjusted profit before tax	21.9	14.6	+50%
Fair value remeasurements	(0.2)	(1.7)	
Acquisition related charges	(2.4)	(1.6)	
Profit before tax	19.3	11.3	+71%

Underlying Results

	Revenue	Adjusted operating profit
	£m	£m
As reported	112.6	22.1
Forex - translation	(0.8)	(0.3)
- transaction	-	-
	<u>111.8</u>	<u>21.8</u>
Acquisitions - All Seals	(3.2)	(0.7)
- BGS	(1.2)	(0.1)
- CMI	(3.3)	(0.7)
	<u>104.1</u>	<u>20.3</u>
 Increase in underlying results	 21%	 39%

As reported – HY 2010

£86.2m

£14.6m

Profit After Tax

	Six months ended 31 March		
	2011	2010	
	£m	£m	
Adjusted profit before tax	21.9	14.6	
IFRS taxation	(6.1)	(4.2)	
Adjustments	(0.3)	(0.2)	
Adjusted tax	(6.4)	(4.4)	
<i>Effective adjusted tax rate</i>	<i>29.2%</i>	30.1%	
Earnings per share			
Adjusted	13.2p	8.4p	+57%
Basic	11.2p	5.7p	+96%

Free Cash Flow

	Six months ended 31 March	
	2011	2010
	£m	£m
Operating profit	22.1	14.6
Depreciation	1.0	1.0
Working capital	(8.8)	0.3
Pension and share schemes, net	0.1	0.2
Operating cash flow	14.4	16.1
Finance expense	(0.3)	-
Purchase of own shares	(0.7)	(0.4)
Taxation	(5.6)	(4.9)
Capital expenditure	(0.7)	(0.5)
Disposal of business	0.2	6.3
Free cash flow	7.3	16.6

Net (Debt)/Cash Funds

	Six months ended 31 March	
	2011	2010
	£m	£m
Free cash flow	7.3	16.6
Free cash flow - discontinued	-	(0.7)
Acquisition cash paid	(26.5)	(2.5)
Deferred consideration	(0.9)	(0.3)
Dividends	(10.9)	(7.1)
	(31.0)	6.0
Cash funds brought forward	30.1	21.3
Exchange adjustments	-	1.1
Net (debt)/cash funds	(0.9)	28.4

Shareholders' Funds

	31 Mar 2011 £m	30 Sept 2010 £m
Goodwill	89.8	67.3
Acquisition intangible assets	30.2	22.7
Tangible assets	11.7	11.7
	<u>131.7</u>	<u>101.7</u>
Net working capital	37.3	28.2
Trading capital employed	169.0	129.9
Retirement benefit obligations	(5.1)	(5.3)
Deferred tax, net	(3.5)	(1.3)
Future purchases of minorities	(1.3)	(13.2)
Deferred consideration	(2.1)	(1.0)
Net (debt)/cash funds	(0.9)	30.1
	<u>156.1</u>	<u>139.2</u>
less: minority interests	(0.5)	(3.1)
Total shareholders' equity	<u>155.6</u>	<u>136.1</u>

IV Outlook and Prospects

Outlook and Prospects

- Strong underlying revenue and profit performance continuing into second half; although comparatives are now becoming more demanding
- Confidence in continued progress provided by:
 - Broad spread of markets and geographies served by the Group
 - Contributions from newly acquired businesses
- Strong balance sheet and free cash flow continue to support objective to grow and invest in Group's businesses