## Diploma PLC Interim Report 2009

Diploma PLC is an international group of businesses supplying specialised technical products and services

## Financial Highlights

Half Year ended 31 March	2009 £m	2008 £m	
Revenue	88.0	85.3	+3%
Operating profit*	12.3	13.1	-6%
Operating margin*	14.0%	15.4%	
Adjusted profit before tax**	12.4	13.1	-5%
Profit before tax	9.7	11.5	-16%
Free cash flow <sup>†</sup>	7.1	5.4	+31%
	Pence	Pence	
Adjusted earnings per share***	7.2	7.6	-5%
Basic earnings per share	5.0	6.4	-22%
Dividends per share	2.5	2.5	_

<sup>\*</sup> Before amortisation of acquisition intangible assets

<sup>‡</sup> Before fair value remeasurement of put options

<sup>†</sup> Diploma PLC uses alternative performance measures as key financial indicators to assess the underlying performance of the Group. These include adjusted profit before tax, adjusted earnings per share and free cash flow. These are defined in note 2 to the condensed set of consolidated financial statements.

### Half Year Review

to 31 March 2009

In the first half of the current financial year, the Group's performance was impacted by the weaker trading environment across all sectors and particularly in the North American Seals businesses. However, the Group's businesses continued to demonstrate their resilient characteristics, drawing strength from the focus on supplying essential products and services to specialised market sectors which value customer service. Tight management of operations and working capital ensured strong cash flow performance.

The Group's revenues increased by 3% over the comparable period. The weaker trading conditions were partly mitigated by the contributions from newly acquired businesses and the positive impact, on the translation of the results of the overseas businesses, of a weaker UK sterling. Adjusting for currency effects and acquisitions, revenues decreased by 11%.

Cost reduction programmes have been implemented during the half year across most operating businesses to respond to the revenue reductions. Excluding the new acquisitions, Group total headcount and monthly salary costs have reduced by 7% and 4% respectively, since the beginning of the financial year. The costs associated with these programmes have been absorbed in the half year and the benefits inevitably lag the revenue reduction.

Operating profits decreased by 6% over the comparable period, with operating margins reducing by 140 basis points to 14.0%. The results benefited from currency translation and initial contributions from acquisitions, but on a transaction basis, currency movements had a negative effect on gross margins, particularly in the UK and Canadian businesses. Adjusting for both translation and transaction effects of currency, the initial contribution from acquisitions and one-off items, underlying operating profits decreased by ca. 12%.

Free cash flow increased by 31% over the comparable period and the Group ended the period with net cash funds of £5.5m. The ungeared balance sheet and strong cash flow provides a secure platform to support the continued development of the Group, while continuing to provide healthy dividends.

#### **Results and Dividends**

In the six months ended 31 March 2009, Group revenue increased by 3% to £88.0m (2008: £85.3m). Operating profit, before the amortisation of acquisition intangible assets, decreased by 6% to £12.3m (2008: £13.1m). Operating margins were 14.0% compared with 15.4% in the prior year comparable period.

Adjusted profit before tax decreased by 5% to £12.4m (2008: £13.1m). On an IFRS basis, profit before tax was 16% below the comparable period at £9.7m (2008: £11.5m), reflecting an increase in the UK sterling liability for future purchases of minority interests

Adjusted earnings per share decreased by 5% to 7.2p (2008: 7.6p). Basic earnings per share were 5.0p (2008: 6.4p). The Directors have declared an unchanged interim dividend of 2.5p per share (2008: 2.5p), payable on 17 June 2009 to shareholders on the register at 22 May 2009.

#### **Operating Review**

#### Life Sciences

The Life Sciences businesses are suppliers of consumables, instrumentation and related services to clinical, research and environmental applications.

	Half		
	2009	2008	
Revenue	£32.1m	£31.4m	+2%
Operating profit	£5.0m	£5.1m	-2%
Operating margin	15.6%	16.2%	

Life Sciences sector revenues in the first half of the year increased by 2% over the prior year comparable period. The results benefited on translation from the stronger Canadian dollar, relative to UK sterling and the initial contribution from the newly acquired Meditech. Adjusting for currency effects and the acquisition, sector revenues decreased by 5%. On a transaction basis, currency effects had a negative effect on gross margins in the Canadian and UK businesses and operating margins reduced slightly to 15.6% (2008: 16.2%).

The Canadian Healthcare businesses continued to make good progress in markets where overall funding remains steady, but increased focus is being placed on the most cost effective use of the funds. Revenues increased by 5% in Canadian dollars which translates to growth of 14% in UK sterling terms. AMT saw continued strong growth in its Electrosurgery business with strong sales of smoke evacuation products. boosted by the announcement of a new Canadian advisory standard for "smoke plume capture". Other consumable products generated growth, including grounding pads and surgical instruments. The GI Endoscopy business also saw growth in its sales of consumable products, including argon probes and flexible endoscopic instruments; sales of capital equipment were reduced, but against a very strong prior year comparative.

Somagen produced a solid performance with steady supply, under long term customer contracts, of consumables and reagents and a strong level of capital equipment placements. The small bolt-on acquisition of Meditech was completed in November 2008. This acquisition has established Somagen as a leading supplier of products and services to the growing in-vitro fertilisation ("IVF") market, represented by the ca. 30 dedicated clinics across Canada.

In Europe, Anachem and the Environmental business experienced a 9% reduction in revenues. Sales of consumable products and service have held up well, but capital equipment sales have suffered from decisions by customers to defer capital expenditure. The initial impact was seen in the UK, but a similar trend is now being experienced with customers in Continental Europe. In response, the businesses have implemented cost reduction programmes which have reduced headcount by 8% against the prior year comparable period.

#### Seals

The Seals businesses are suppliers of hydraulic seals, gaskets, cylinders and attachment kits for heavy mobile and industrial machinery.

	Half		
	2009	2008	
Revenue	£23.7m	£20.0m	+19%
Operating profit	£2.5m	£2.7m	-7%
Operating margin	10.5%	13.5%	

Seals sector revenues in the first half of the year increased in UK sterling terms by 19% over the prior year comparable period. The results benefited on translation from the stronger US dollar, relative to UK sterling and from the initial contribution from RTD Seals, acquired in January 2009. Adjusting for currency effects and the acquisition, sector revenues decreased by 18%. The impact of cost reduction programmes has lagged the revenue reduction and is not sufficient to offset the negative impact from operational leverage. As a result, operating margins reduced to 10.5% (2008: 13.5%).

The North American Seals business, Hercules Fluid Power Group ("HFPG"), has faced significantly weaker trading conditions. The core Hercules business in the US and Canada is focused on the Aftermarket, with products used in the repair and maintenance of equipment after it has completed its initial warranty period or lease term, or has been sold on in the preused market. Although certainly not immune from the dramatic downturn in the market, the Hercules business has demonstrated its resilience and has suffered less revenue reduction than the broader market.

The major impact of the downturn has been experienced by those businesses supplying to industrial OEMs and construction equipment dealers. Both HKX and Bulldog have seen a significant fall in the demand for their products, exacerbated by extensive de-stocking by their customers who are typically distributors and dealers, rather than end users of the products.

In January 2009, HFPG acquired RTD Seals, a leading US based supplier of seals, O-rings and custom moulded and machined parts offered in a range of elastomeric and thermoplastic materials. RTD Seals is a good sized, long established supplier to industrial

### Half Year Review continued

to 31 March 2009

OEMs with a strong established position in the Mid-Western US states. The core business will provide a platform for building HFPG's OEM business in North America and the newer O-ring and custom parts businesses offer good growth opportunities, when supported by HFPG's broader sales and marketing resources. RTD Seals made a positive contribution to operating profits, despite being impacted by the significant downturn in industrial OEM business; however it will be well positioned to gain early benefit from any market recovery.

The market downturn, first experienced in the broader US industrial markets in late 2008, has also spread to European markets. Combined revenues from the European Seals businesses of FPE, M Seals and Hercules Europe have been broadly flat against the prior year comparable period, but there have been some currency benefits on translation.

Cost reduction programmes have been, and will continue to be, implemented across the Seals businesses. Since the beginning of the financial year, both HFPG headcount and monthly operating expenses have been reduced by 14%. Similar programmes are being implemented in the other Seals businesses to match resources to trading activity.

There is a strong focus on operational efficiency in these businesses and tight working capital management. Resources are being planned assuming no near term recovery in the markets. However, investment has been maintained in a new warehouse automation and carousel system in Hercules, Clearwater and in the establishment of Hercules Europe. When the market eventually recovers, these businesses will emerge stronger and well placed to exploit growth opportunities.

#### Controls

The Controls businesses are suppliers of specialised wiring, connectors, fasteners and control devices for a range of technically demanding applications.

Halt		
2009	2008	
£32.2m	£33.9m	-5%
£4.8m	£5.3m	-9%
14.9%	15.6%	
	2009 £32.2m £4.8m	<b>£32.2m</b> £33.9m £5.3m

Controls sector revenues in the first half of the year decreased by 5% over the prior year comparable period; on a constant currency basis, revenues reduced by 11%. The UK businesses, which together account for over 60% of sector revenues, were impacted by the effects of the weaker UK sterling on purchased products, a significant proportion of which are imported. With the reduced revenues, sector operating margins reduced to 14.9% (2008: 15.6%).

The UK Controls businesses saw revenues reduced by 7% over the comparable period. The core Defence and Aerospace markets for the IS Group remained relatively buoyant, compared to the general economic background. Although there has been a slowdown in the Civil Aerospace segment, the Military Aerospace and Defence markets have benefited from the ongoing upgrade, refurbishment and maintenance programmes. Motorsport sales have been impacted by the range of cost cutting initiatives, including testing restrictions, being implemented throughout the Formula One series. The cut-backs in sponsorship by major automotive companies is also having a significant impact on other series, especially World Rally and NASCAR

IS Group's manufactured products supplied to Commercial and Industrial customers and Hawco's Controls business have been more exposed to the general downturn in UK industrial markets than the other UK Controls businesses. Quotation activity is high, but conversion times have lengthened and order sizes have reduced. The management focus is clearly on pro-active sales and marketing, operational efficiency and working capital management. The Hitek calibration services business, which is now being managed as part of Hawco, has performed well.

The German Controls businesses saw revenues reduced by 18% in local currency terms, which translates to a decline of 2% in UK sterling terms. The market downturn came later to Germany than the UK and US, but weaker trading activity is now being experienced, particularly with those customers who are dependant on export markets. The background business of products supplied into Defence and Aerospace markets is being maintained, but schedules for major projects are being delayed or postponed.

As with the other sectors, cost reduction programmes have been implemented in the Controls businesses to respond to reductions in revenues. Sector headcount reduced by 5% during the first half of the year and further cost reductions are planned for the second half of the year.

#### **Finance**

#### Free cash flow

The Group generated free cash flow of £7.1m during the period, compared with £5.4m in the same period last year. The strong improvement in cash flow, despite a difficult trading environment, was achieved through a close focus on working capital, which historically has always expanded in the first half of the Group's financial year. In the current period, underlying investment in working capital remained broadly unchanged from 30 September 2008, compared with an increase of £3.8m in the same period last year. Tax payments in the first half of the vear increased sharply on the comparable period last year to £5.7m (2008: £4.0m) as acquisitions completed in 2007, were moved to a guarterly tax payment basis and paid their 2008 tax liabilities. Additions to capital equipment were £1.0m (2008: £0.9m) and included expenditure of £0.4m on a major project to upgrade warehouse facilities in the Seals business in Clearwater, United States and £0.4m on acquiring field equipment in support of lease programmes in the Life Sciences businesses.

#### Acquisitions

On 12 January 2009 the Group acquired the business, assets and goodwill of RT/Dygert International Inc ("RTD") for maximum consideration payable of £13.6m (US\$20.3m) including expenses, of which £9.9m (US\$14.7m) was paid on initial acquisition. The business, which trades as RTD Seals, operates from facilities in both Minneapolis and Chicago in the United States and is a leading supplier of seals, O-rings and custom moulded and machined parts offered in a range of elastomeric and thermoplastic materials.

On 5 November 2008, the Group acquired 100% of Meditech Istisharat Canada Inc ("Meditech"), a small medical diagnostic company in Canada, for maximum consideration payable of £1.5m (C\$2.9m), including expenses, of which £1.3m (C\$2.5m) was paid on initial acquisition.

#### Net cash funds

Net cash funds at 31 March 2009 were £5.5m, compared with £15.7m at 30 September 2008. The reduction in funds of £10.2m reflected the impact of spending £12.3m on acquisitions (including deferred consideration) and £6.3m on dividends during the period.

The acquisition of RTD Seals in January 2009 was partly financed by drawing down US\$7.0m (£4.7m) from the Group's existing multicurrency credit facility of £20.0m. This committed credit facility is due to expire in November 2010 and is in addition to a £5.0m short term overdraft facility. These facilities are expected to be sufficient to meet the Group's liquidity needs in the forseeable future.

#### **Exchange rates**

With over 60% of the Group's businesses being located outside the UK, the very large depreciation in UK sterling since 1 October 2008, particularly in the first quarter, has had a significant impact on the Group's reported results for the first half of the year.

### Half Year Review continued

to 31 March 2009

The impact on revenue and operating profits from the translation of the results of the overseas businesses has been to increase revenue and operating profits by £8.8m and £1.3m, respectively.

Conversely, operating profits of the UK businesses have suffered from the impact of the depreciation of UK sterling on products purchased from overseas manufactures; similarly, margins earned in the Canadian Healthcare businesses have suffered from the impact of the depreciation of the Canadian dollar on products purchased in US dollars. However some of this impact has been reduced by forward foreign exchange contracts.

#### Related party transactions

On 9 February 2009 the Group paid £1.1m (C\$2.0m) to the vendors of AMT as deferred consideration in respect of the final settlement of their performance payment. At the same time, the Group also paid £0.7m (C\$1.2m) in aggregate, as dividends to the minority shareholders of Somagen and AMT. The minority shareholders of both these companies are also directors and employees of Somagen and AMT and accordingly these payments represent related party transactions; there were no other related party transactions or changes in related party transactions described in last year's Annual Report, that could have a material effect on the financial position or performance of the Group during the six months ended 31 March 2009.

#### Risks and Uncertainties

The risks and uncertainties which may have the largest impact on performance in the second half of the year are the same as those described in detail in pages 32-34 of the 2008 Annual Report. In summary these are:

- Strategic risks Further downturn in major markets, loss of key suppliers and customers, technological change, product liability and loss of key personnel;
- Operational risks Major damage to premises and disruption by service providers; and
- Financial risks Foreign currency risk, bad debts and inventory obsolescence, credit and liquidity risk, fraud and theft.

It should be recognised that additional risks not currently known to management, or risks that management currently regard as immaterial, could also have a material adverse effect on the Group's financial condition or the results of operations.

#### **Current Trading**

In the current difficult trading environment, the Group's businesses will continue to focus on sustaining operating margins and generating strong cash flow, while maintaining market position through customer service. The resilient characteristics of the businesses, combined with tight management of operating costs and working capital, should ensure that performance continues to be optimised at current activity levels. As markets eventually move into recovery, the Board is confident that the businesses will emerge stronger and well placed to benefit from the improving demand.

#### **Bruce Thompson**

Chief Executive Officer 11 May 2009

# Responsibility Statement of the Directors in respect of the Interim Report 2009

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU; and
- the Interim Report includes a fair review of the information required by:
  - a) DTR4.2.7R of the Disclosure and Transparency Rules, being an indication of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of consolidated financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - b) DTR4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

The Directors of Diploma PLC and their respective responsibilities are listed in the Annual Report for 2008. There have been no changes in the period.

#### By Order of the Board

**BM Thompson**Chief Executive Officer
11 May 2009

**NP Lingwood**Group Finance Director

11 May 2009

### Condensed Consolidated Income Statement

For the six months ended 31 March 2009

	Note	Unaudited 31 March 2009 £m	Unaudited 31 March 2008 £m	Audited 30 Sept 2008 £m
Revenue	3	88.0	85.3	172.3
Cost of sales		(56.6)	(54.6)	(110.0)
Gross profit		31.4	30.7	62.3
Distribution costs		(2.5)	(2.5)	(4.8)
Administration costs		(18.0)	(16.4)	(32.9)
Operating profit, before amortisation of acquisition				
intangible assets	3	12.3	13.1	27.3
Amortisation of acquisition intangible assets		(1.4)	(1.3)	(2.7)
Operating profit	3	10.9	11.8	24.6
Interest income		0.1	_	0.2
Fair value remeasurement of put options		(1.3)	(0.3)	(3.0)
Net finance expense	4	(1.2)	(0.3)	(2.8)
Profit before tax		9.7	11.5	21.8
Tax expense	5	(3.5)	(3.8)	(7.4)
Profit for the period		6.2	7.7	14.4
Attributable to:				
Shareholders of the Company		5.6	7.2	13.3
Minority interests		0.6	0.5	1.1
		6.2	7.7	14.4
Earnings per share				
Basic and diluted earnings	6	5.0բ	<b>6</b> .4p	11.8p

	Note	31 March 2009 £m	31 March 2008 £m	30 Sept 2008 £m
Profit before tax		9.7	11.5	21.8
Add: Amortisation of acquisition intangible assets		1.4	1.3	2.7
Fair value remeasurement of put options	4	1.3	0.3	3.0
Adjusted profit before tax		12.4	13.1	27.5
Adjusted earnings per share	6	7.2p	7.6p	16.4p

## Condensed Consolidated Balance Sheet

As at 31 March 2009

	Note	Unaudited 31 March 2009 £m	Unaudited 31 March 2008 £m	Audited 30 Sept 2008 £m
Non-current assets				
Goodwill		63.7	48.7	51.6
Acquisition intangible assets		18.7	19.3	18.6
Other intangible assets		1.1	1.2	1.2
Property, plant and equipment		12.8	11.6	11.6
Deferred tax assets		1.5	1.3	1.3
		97.8	82.1	84.3
Current assets				
Inventories		37.1	30.2	31.5
Trade and other receivables		30.6	29.0	26.7
Cash and cash equivalents	8	10.4	9.6	15.7
		78.1	68.8	73.9
Current liabilities				
Trade and other payables		(26.3)	(27.1)	(26.3)
Current tax liabilities		(1.4)	(3.4)	(3.3)
Other liabilities	10	(2.8)	(1.4)	(1.1)
Borrowings	8	(4.9)	(2.4)	-
		(35.4)	(34.3)	(30.7)
Net current assets		42.7	34.5	43.2
Total assets less current liabilities		140.5	116.6	127.5
Non-current liabilities				
Retirement benefit obligations		(1.6)	(1.5)	(1.7)
Other liabilities	10	(10.3)	(8.6)	(11.2)
Deferred tax liabilities		(5.0)	(4.9)	(4.6)
Net assets		123.6	101.6	110.0
Equity				
Share capital		5.7	5.7	5.7
Translation reserve		20.0	3.1	8.0
Hedging reserve		2.4	0.1	0.7
Retained earnings		93.3	91.5	93.7
Total shareholders' equity		121.4	100.4	108.1
Minority interests		2.2	1.2	1.9
Total equity		123.6	101.6	110.0

## Condensed Consolidated Statement of Recognised Income and Expense For the six months ended 31 March 2009

	Unaudited 31 March 2009 £m	Unaudited 31 March 2008 £m	Audited 30 Sept 2008 £m
Exchange rate adjustments on foreign currency net investments	12.0	2.5	7.4
Gains on fair value of cash flow hedges	1.7	0.7	1.3
Actuarial losses on defined benefit pension schemes	-	_	(0.5)
Deferred tax on items recognised in equity	(0.5)	(0.2)	(0.3)
Net income recognised directly in equity for the period	13.2	3.0	7.9
Profit for the period	6.2	7.7	14.4
Total recognised income and expense for the period	19.4	10.7	22.3
Attributable to:			
Shareholders of the Company	18.6	10.2	21.1
Minority interests	0.8	0.5	1.2
	19.4	10.7	22.3

Other changes in shareholders' equity						
	Share capital £m	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 1 October 2007	1.1	0.2	0.6	(0.6)	89.4	90.7
Total recognised income and expense for the						
period attributable to shareholders	_	_	2.5	0.7	7.0	10.2
Bonus issue of shares	4.6	(0.2)	-	-	(4.4)	-
Share-based payments expense	-	-	-	-	0.3	0.3
Purchase of own shares	-	-	-	-	(0.4)	(0.4)
Future purchases of minority interests	-	-	-	-	3.6	3.6
Dividends	_	-	-	_	(4.0)	(4.0)
At 31 March 2008	5.7	_	3.1	0.1	91.5	100.4
Total recognised income and expense for the						
period attributable to shareholders	_	_	4.9	0.6	5.4	10.9
Share-based payments expense	-	-	-	-	0.2	0.2
Purchase of own shares	-	-	-	-	(0.5)	(0.5)
Dividends	-	-	-	-	(2.9)	(2.9)
At 30 September 2008	5.7	_	8.0	0.7	93.7	108.1
Total recognised income and expense for the						
period attributable to shareholders	-	-	12.0	1.7	4.9	18.6
Share-based payments expense	-	_	-	_	0.3	0.3
Dividends	-	-	-	-	(5.6)	(5.6)
At 31 March 2009	5.7	-	20.0	2.4	93.3	121.4

### Condensed Consolidated Cash Flow Statement

For the six months ended 31 March 2009

		Unaudited 31 March 2009	Unaudited 31 March 2008	Audited 30 Sept 2008
	Note	£m	£m	£m
Cash flows from operating activities				
Cash flow from operations	7	13.7	10.7	28.8
Finance income received, net		0.1	-	-
Tax paid		(5.7)	(4.0)	(8.2)
Net cash from operating activities		8.1	6.7	20.6
Cash flows from investing activities				
Acquisition of subsidiaries (net of cash acquired)	9	(11.2)	(6.0)	(7.6)
Deferred consideration paid	10	(1.1)	-	(0.3)
Proceeds from the sale of property, plant and equipment		-	-	0.2
Purchase of property, plant and equipment		(1.0)	(0.6)	(1.6)
Purchase of other intangible assets		_	(0.3)	(0.3)
Net cash used in investing activities		(13.3)	(6.9)	(9.6)
Cash flows from financing activities				
Dividends paid to shareholders		(5.6)	(4.0)	(6.9)
Dividends paid to minority interests		(0.7)	(0.9)	(0.9)
Purchase of own shares		-	(0.4)	(0.9)
Proceeds from borrowings		4.7	2.4	-
Net cash used in financing activities		(1.6)	(2.9)	(8.7)
Net (decrease)/increase in cash and cash equivalents	8	(6.8)	(3.1)	2.3
Cash and cash equivalents at beginning of period		15.7	12.4	12.4
Effect of exchange rates on cash and cash equivalents		1.5	0.3	1.0
Cash and cash equivalents at end of period		10.4	9.6	15.7

Alternative Performance Measures (note 2)			
	31 March 2009 £m	31 March 2008 £m	30 Sept 2008 £m
Net (decrease)/increase in cash and cash equivalents	(6.8)	(3.1)	2.3
Add: Dividends paid to shareholders	5.6	4.0	6.9
Dividends paid to minority interests	0.7	0.9	0.9
Acquisition of subsidiaries (net of cash acquired)	11.2	6.0	7.6
Deferred consideration paid	1.1	-	0.3
Less: Proceeds from borrowings	(4.7)	(2.4)	_
Free cash flow	7.1	5.4	18.0

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 March 2009

#### 1. Basis of Preparation and Principal Accounting Policies

Diploma PLC (the "Company") is a company domiciled in the UK. The condensed set of consolidated financial statements ("the financial statements") for the six months ended 31 March 2009 comprises the Company and its subsidiaries (together referred to as the "Group").

The comparative figures for the financial year ended 30 September 2008 are not the Group's statutory accounts for that financial year within the meaning of section 434 of the Companies Act 2006. Those accounts have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 of the Companies Act 2006. The figures for the six months ended 31 March 2008 were extracted from the 2008 Interim Report, which was unaudited

The Group's audited consolidated financial statements for the year ended 30 September 2008 are available upon request from the Company's registered office at Diploma PLC, 12 Charterhouse Square, London, EC1M 6AX or from the Company's website.

#### 1.1 Statement of compliance

The financial statements included in this Interim Report for the six months ended 31 March 2009 have been prepared in accordance with *IAS 34, Interim Financial Reporting* as adopted by the European Union. The financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Group's audited consolidated financial statements for the year ended 30 September 2008.

This set of financial statements were approved by the Board of Directors on 11 May 2009; they have not been reviewed or audited by the Company's auditors.

#### 1.2 Significant accounting policies

The accounting policies applied by the Group in this set of financial statements are the same as those applied by the Group in its audited consolidated financial statements for the year ended 30 September 2008. There are no new standards, amendments to standards or interpretations that are mandatory for the year ending 30 September 2009 and that are relevant to the Group.

The following new standards, amendments to standards and interpretations have been issued which are relevant to the Group, but are not effective for the financial year ending 30 September 2009 and will not be adopted early:

IFRS 8, Operating Segments is effective from 1 October 2009 and specifies how an entity should report information about its operating segments in its financial statements.

IFRS 3, Business Combinations and IAS 27, Consolidated and Separate Financial Statements are effective from 1 October 2009 and relate to accounting for acquisitions.

#### 1.3 Estimates and judgements

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The estimates and judgements made by management in applying the Group's accounting policies and the key sources of uncertainty that have the most significant effect on the amounts included within these financial statements, were the same as those that applied to the Group's audited consolidated financial statements for the year ended 30 September 2008. These were set out on pages 73 and 74 of the 2008 Annual Report.

#### 2. Alternative Performance Measures

The Group uses a number of alternative (non-Generally Accepted Accounting Practice ("non-GAAP")) financial measures which are not defined within IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and as such, these measures are important and should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in this Interim Report.

#### 2.1 Adjusted profit before tax

On the face of the consolidated income statement, "adjusted profit before tax" is separately disclosed, being defined as profit before tax and before the costs of restructuring or rationalisation of operations, the profit or loss relating to the sale of property, fair value remeasurements under IAS 32 and IAS 39 in respect of put options for future purchases of minority interests and the amortisation and impairment of acquisition intangible assets. The Directors believe that adjusted profit before tax is an important and consistent measure of the underlying performance of the Group.

#### 2.2 Adjusted earnings per share

"Adjusted earnings per share" is calculated as the total of adjusted profit, less income tax costs, but excluding the tax impact on the items included in the calculation of adjusted profit and the tax effects of goodwill in overseas jurisdictions, less profit attributable to minority interests, divided by the weighted average number of ordinary shares in issue during the period. The Directors believe that adjusted earnings per share provides an important and consistent measure of the underlying earning capacity of the Group.

#### 2.3 Free cash flow

On the face of the consolidated cash flow statement, "free cash flow" is reported, being defined as net cash flow from operating activities, after net capital expenditure on fixed assets, but before expenditure on business combinations and dividends paid to both minority shareholders and the Company's shareholders. The Directors believe that free cash flow gives an important and consistent measure of the cash flow of the Group, available for future investment.

# Notes to the Condensed Consolidated Financial Statements continued

For the six months ended 31 March 2009

#### 3. Analysis of Results

Segmental information is presented in this Interim Report in respect of the Group's business segments, which is the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure. The geographic segment reporting represents results by source.

	Revenue			Op	erating prof	fit*	Operating profit			
	31 March		-		31 March		31 March		30 Sept	
	2009	2008	2008	2009	2008	2008	2009	2008	2008	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	
By Activity										
Life Sciences	32.1	31.4	62.1	5.0	5.1	9.6	4.4	4.4	8.1	
Seals	23.7	20.0	42.6	2.5	2.7	6.7	2.0	2.3	5.9	
Controls	32.2	33.9	67.6	4.8	5.3	11.0	4.5	5.1	10.6	
	88.0	85.3	172.3	12.3	13.1	27.3	10.9	11.8	24.6	
By Geographic Area										
United Kingdom	33.0	37.2	73.8	3.7	4.1	8.6	3.3	3.6	7.6	
Rest of Europe	17.5	16.5	33.7	2.1	2.7	5.7	1.8	2.5	5.2	
North America	37.5	31.6	64.8	6.5	6.3	13.0	5.8	5.7	11.8	
	88.0	85.3	172.3	12.3	13.1	27.3	10.9	11.8	24.6	

<sup>\*</sup>before amortisation of acquisition intangible assets

#### 4. Net Finance Expense

	31 March 2009 £m	31 March 2008 £m	30 Sept 2008 £m
Finance income			
- interest receivable on short term deposits	0.1	0.1	0.3
- net finance income from defined benefit pension schemes	-	-	0.2
	0.1	0.1	0.5
Finance expense			
- interest payable on bank borrowings	_	(0.1)	(0.3)
- fair value remeasurement of put options (note 10)	(1.3)	(0.3)	(3.0)
	(1.3)	(0.4)	(3.3)
Net finance expense	(1.2)	(0.3)	(2.8)

#### 5. Taxation

	31 March 2009 £m	31 March 2008 £m	30 Sept 2008 £m
UK tax charge	1.1	1.2	2.3
Overseas tax charge	2.4	2.6	5.1
Total tax charge	3.5	3.8	7.4

Taxation on profits before tax has been calculated by applying the Directors' best estimate of the annual rate of taxation to taxable profits for the period. The effective rate of taxation on profit before tax for the period is 36.1% (2008: 33.0%). The Group's adjusted effective rate of tax on adjusted profit before tax has reduced to 29.8% (2008: 31.3%), largely reflecting a reduced rate of corporation tax this year in both Canada and the UK.

#### 6. Earnings Per Share

#### Basic and diluted earnings per share

Basic and diluted earnings per ordinary share are calculated on the basis of the weighted average number of ordinary shares in issue during the period of 112,262,222 (2008: 112,302,472) and the profit for the period attributable to shareholders of £5.6m (2008: £7.2m). There were no potentially dilutive shares.

#### Adjusted earnings per share

Adjusted earnings per share, which is defined in note 2, are calculated as follows:

	31 March 2009 pence	31 March 2008 pence	30 Sept 2008 pence	31 March 2009	31 March 2008	30 Sept 2008
	per share	per share	per share	£m	£m	£m
Profit before tax				9.7	11.5	21.8
Tax expense				(3.5)	(3.8)	(7.4)
Minority interests				(0.6)	(0.5)	(1.1)
Earnings for the period attributable to						
shareholders of the Company	5.0	6.4	11.8	5.6	7.2	13.3
Amortisation of acquisition intangible assets	1.2	1.2	2.4	1.4	1.3	2.7
Fair value remeasurement of put options	1.2	0.3	2.7	1.3	0.3	3.0
Tax effects on goodwill, acquisition intangible						
assets and fair value remeasurement of put option	ns (0.2)	(0.3)	(0.5)	(0.2)	(0.3)	(0.6)
Adjusted earnings	7.2	7.6	16.4	8.1	8.5	18.4

# Notes to the Condensed Consolidated Financial Statements continued

For the six months ended 31 March 2009

#### 7. Reconciliation of Cash Flow from Operations

	31 March 2009 £m	31 March 2008 £m	30 Sept 2008 £m
Profit for the period	6.2	7.7	14.4
Depreciation/amortisation of tangible and other intangible assets	1.3	1.2	2.5
Amortisation of acquisition intangible assets	1.4	1.3	2.7
Share-based payments expense	0.3	0.3	0.5
Net finance expense	1.2	0.3	2.8
Tax expense	3.5	3.8	7.4
Operating cash flow before changes in working capital	13.9	14.6	30.3
Decrease/(increase) in inventories	0.7	(1.7)	(1.5)
Decrease/(increase) in trade and other receivables	1.5	(2.3)	0.9
(Decrease)/increase in trade and other payables	(2.3)	0.2	(0.7)
Cash paid into defined benefit schemes	(0.1)	(0.1)	(0.2)
Cash flow from operations	13.7	10.7	28.8

#### 8. Movement in Net Cash

	31 March 2009 £m	31 March 2008 £m	30 Sept 2008 £m
Net (decrease)/increase in cash and cash equivalents	(6.8)	(3.1)	2.3
Proceeds from borrowings	(4.7)	(2.4)	-
Exchange adjustments	1.3	0.3	1.0
	(10.2)	(5.2)	3.3
Net cash at beginning of period	15.7	12.4	12.4
Net cash at end of period	5.5	7.2	15.7
Comprising:			
Cash and cash equivalents	10.4	9.6	15.7
Borrowings	(4.9)	(2.4)	_

At 31 March 2009 the Group retains £15m of undrawn committed term facilities which expire in November 2010 and a £5m short term overdraft facility.

#### 9. Acquisitions

On 12 January 2009 the Group completed the acquisition of the business, assets and goodwill of RT/Dygert International Inc ("RTD") for a maximum consideration of £13.6m (US\$20.3m), including expenses. The business was acquired by RTD Seals Corp ("RTD Seals"), a wholly owned subsidiary of the Group's North American Seals business of Hercules Fluid Power Group. The initial cash paid on acquisition was £9.9m (US\$14.7m), with a further £0.1m (US\$0.2m) paid in April 2009 to reflect actual net assets acquired on completion. The balance of £3.6m (US\$5.4m) is payable in 2010 based on a number of factors, including principally the performance of the business in the period ending 31 December 2009. However, at 31 March 2009, only £0.4m (US\$0.5m) has been provided as deferred consideration. The provisional fair value of identifiable assets and liabilities of the acquired business, excluding intangible assets, was £3.8m. Provisional goodwill of £6.6m arose on this acquisition and this goodwill will be analysed into its constituent intangible assets, in accordance with IFRS 3, in the full year financial statements at 30 September 2009. The contribution of RTD Seals to the Group's revenue and operating profit for the six months ended 31 March 2009 was £2.3m and £0.3m, respectively.

On 5 November 2008, Somagen Diagnostics Inc, a subsidiary in the Group, acquired 100% of Meditech Istisharat Canada Inc ("Meditech") for maximum consideration of £1.5m (C\$2.9m), including expenses. The initial cash paid on acquisition was £1.3m (C\$2.5m) and the balance of £0.2m (C\$0.4m) is payable in November 2009, based on the performance of the business in the period ending 31 October 2009. The fair value of identifiable assets and liabilities of the acquired business was £0.2m. Goodwill of £1.3m arose on this acquisition which comprised the value in the business relating to the product know held by the employees. The contribution of Meditech to the Group's revenue and operating profit for the six months ended 31 March 2009 was £0.4m and £0.1m, respectively.

#### 10. Other Liabilities

	31 March 2009 £m	31 March 2008 £m	30 Sept 2008 £m
Future purchases of minority interests	12.5	8.6	11.2
Deferred consideration	0.6	1.4	1.1
At end of period	13.1	10.0	12.3
Analysed as:			
Due within one year	2.8	1.4	1.1
Due after one year	10.3	8.6	11.2

The movement in the liability for future purchases of minority interests is as follows:

	31 March 2009 £m	31 March 2008 £m	30 Sept 2008 £m
At 1 October	11.2	11.8	11.8
Released to retained earnings	_	(3.5)	(3.6)
Unwinding of discount	0.6	0.3	0.7
Change in value of put options	0.7	_	2.3
At end of period	12.5	8.6	11.2

# Notes to the Condensed Consolidated Financial Statements continued

For the six months ended 31 March 2009

#### 10. Other Liabilities (continued)

The Group has entered into put/call options to acquire the outstanding minority shareholdings in Somagen, AMT and M Seals, which are exercisable between 1 October 2009 and 31 December 2012.

At 31 March 2009, the estimate of the financial liability to acquire the outstanding minority shareholdings was reassessed by the Directors, based on their current estimate of the future performance of the businesses and to reflect foreign exchange rates at 31 March 2009. This led to a remeasurement of the fair value of the put options and the liability was increased by £1.3m through a charge to the Condensed Consolidated Income Statement.

At 31 March 2009, deferred consideration of £0.6m comprised £0.4m payable to the vendors of the business and assets of RTD and £0.2m payable to the vendors of Meditech, as described further in note 9. On 9 February 2009, deferred consideration of £1.1m was paid to the vendors of AMT in final settlement of their performance payment.

#### 11. Dividends

The Directors have declared an unchanged interim dividend of 2.5p per share (2008: 2.5p) payable on 17 June 2009 to shareholders on the register on 22 May 2009. The total value of the dividend is £2.8m (2008: £2.8m).

#### 12. Exchange Rates

The following exchange rates have been used to translate the results of the overseas businesses:

		Average			Closing		
	31 March 2009	31 March 2008	30 Sept 2008	31 March 2009	31 March 2008	30 Sept 2008	
US Dollar	1.48	2.01	1.97	1.43	1.99	1.78	
Canadian Dollar	1.84	2.00	1.99	1.80	2.04	1.90	
Euro	1.14	1.35	1.31	1.08	1.25	1.27	

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