

DIPLOMA PLC

Interim Report 2008

Diploma PLC is an international group of specialised distribution businesses serving industries with long term growth potential and with the opportunity for sustainable superior margins through the quality of customer service, depth of technical support and value adding activities.

Financial Highlights

	Half Year ended 31 March		
	2008	2007	
	£m	£m	
Revenue	85.3	68.2	+25%
Operating profit*	13.1	10.1	+30%
Operating margin*	15.4%	14.8%	
Adjusted profit before tax**†	13.1	10.7	+22%
Profit before tax	11.5	10.5	+10%
Free cash flow†	5.4	1.7	+218%

	Pence	Pence	
Adjusted earnings per share**‡	7.6	6.3	+21%
Basic earnings per share‡	6.4	6.0	+7%
Dividends per share‡	2.5	1.8	+39%

* Before amortisation of acquisition intangible assets.

† 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 consolidated financial statements.

‡ Comparative numbers restated to adjust for the impact of the January 2008 bonus issue.

Half Year Review

to 31 March 2008

In the first half of 2008, the Group continued to grow strongly, increasing revenue and operating profits by 25% and 30% respectively. Adjusted profit before tax increased by 22%.

The results were boosted by contributions from the acquisitions completed in 2007 as well as from the positive impact of the stronger Euro and Canadian dollar on translation of the results of the overseas businesses. Adjusting for currency effects and acquisitions, underlying Group revenue and operating profits increased by 5% and 7% respectively.

This level of organic growth in challenging economic and market conditions demonstrates the resilience of the businesses. Diploma achieves stable growth and attractive margins from its focus on supplying specialised technical products to markets which value high levels of customer service. A high proportion of revenues are generated from essential products and services, funded by operating budgets which are less impacted by economic cycles than capital budgets.

The Group will continue to pursue its strategy of combining robust organic growth with selective, value enhancing acquisitions.

RESULTS AND DIVIDENDS

In the six months ended 31 March 2008, Group revenue increased by 25% to £85.3m (2007: £68.2m). Operating profit, before the amortisation of acquisition intangible assets, increased by 30% to £13.1m (2007: £10.1m). Operating margins were 15.4% compared with 14.8% in the prior year comparable period.

Adjusted profit before tax increased by 22% to £13.1m (2007: £10.7m) with reduced interest income, following the three acquisitions completed in August 2007. On a headline IFRS basis, profit before tax was £11.5m (2007: £10.5m).

Adjusted earnings per share increased by 21% to 7.6p (2007: 6.3p). Basic earnings per share were 6.4p (2007: 6.0p). On 21 January 2008, Diploma PLC carried out a bonus issue of four new ordinary shares of 5p each for each ordinary share held by shareholders of the Company. The comparative earnings and dividends per share have been restated.

The Directors have recently reviewed the Company's dividend policy in light of the increased scale of the Group's activities and the continuing strong free cash flow and have decided to target dividend cover towards 2.0, based on adjusted earning per share. Accordingly, the Directors have declared a 39% increase in the interim dividend to 2.5p per share (2007: 1.8p), payable on 18 June 2008 to shareholders on the register on 23 May 2008.

OPERATING REVIEW

Life Sciences

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

	Half Year		
	2008	2007	
Revenue	£31.4m	£21.3m	+47%
Operating profit	£5.1m	£3.2m	+59%
Operating margin	16.2%	15.0%	

Revenues and operating profits in the first half of the year increased by 47% and 59% respectively, over the prior year comparable period. Results were boosted by the contribution from AMT, acquired in August 2007, as well as from the positive impact on translation of a strengthening Canadian dollar. Adjusting for currency effects and acquisitions, revenues increased by 14%. Operating margins increased to 16.2% compared with 15.0% in the prior year comparable period.

The Canadian Healthcare businesses grew revenues by 11% over the prior year comparable period. AMT made an excellent contribution in its first full half year in the Group. The core Electrosurgery business continued to penetrate the market with its range of specialised equipment and consumables. The newly formed GI Endoscopy division also enjoyed strong growth with sales of capital equipment well ahead of plan. Somagen has been impacted by the loss of product lines from suppliers acquired by larger companies with their own routes to market. However, investment has been made in new products and suppliers, as well as focusing efforts on the remaining strong core of suppliers, spread across a number of product groups.

Half Year Review continued

to 31 March 2008

In Europe, Anachem and the Environmental businesses together grew revenues by 12%. Anachem continues to protect its core business, while pursuing new growth initiatives in related product and market segments. In February 2008, Anachem completed the acquisition of Hitek, a specialised provider of calibration and repair services for a broad range of instruments. Acquired for a net cash consideration of £2.4m, Hitek has overlap with the Anachem laboratory customer base, but also offers new growth opportunities in related markets.

The Environmental businesses which are now consolidated in a1-envirosciences group (the "a1-group"), delivered good growth in each of its major markets of the UK, Germany, Switzerland and France. The a1-group has now taken direct responsibility for the manufacture of its containment products and launched its new STI product range at Analytica, the main European industry trade show held in Germany. OEM supply agreements have been signed with leading analytical instrument manufacturers and dealer expansion is planned in the US, Europe and Asia Pacific. Sales of environmental analysers were strong in both the UK and Germany, benefiting from new products launched by its key suppliers. The emissions monitoring business also produced a good first half performance, converting a solid opening backlog of orders into revenues.

Seals

The Diploma Seals businesses are suppliers of hydraulic seals, kits and components for heavy mobile and industrial machinery.

	Half Year		
	2008	2007	
Revenue	£20.0m	£16.9m	+18%
Operating profit	£2.7m	£2.3m	+17%
Operating margin	13.5%	13.6%	

Revenues and operating profits in the first half of the year increased by 18% and 17% respectively over the prior year comparable period, boosted by the contribution from M Seals acquired in August 2007. Adjusting for currency effects and acquisitions, revenues

increased by 4%. Operating margins were 13.5% compared with 13.6% in the prior year comparable period.

The North American Seals business, Hercules Fluid Power Group (HFPG), achieved 2% revenue growth in the first half, compared with the prior year. This creditable performance demonstrates the resilient characteristics of the HFPG business which is insulated from the extremes of the downturn in the US construction market because:

- It is more focused on non-discretionary expenditure in the Aftermarket for mobile machinery, rather than on new equipment sales.
- It is more focused on heavy, non-residential construction and infrastructure markets which have continued to deliver growth.
- 35% of its revenues are generated outside the domestic US market, in Canada, South America, Asia Pacific, Middle East and Europe.

HFPG is continuing to invest in developing new seal, gasket and attachment kits to expand the product line in North America. It is also investing in new growth initiatives in China and in the European Aftermarket.

The European Seals businesses together delivered 9% growth in revenues over the prior year comparable period, on a constant currency basis. M Seals in Denmark was acquired in August 2007 and achieved a good first half performance in line with expectations. M Seals has been particularly successful in supplying seals into the wind turbine sector where Danish companies are global leaders. M Seals is also looking to increase its penetration in the expanding Chinese wind turbine market and will take advantage of the representative office (RO), already established by HFPG. The Swedish sales office is also developing well with increased sales to an expanding customer base. FPE in the UK benefited from a strong export performance as well as the additional contribution from Hydraflow, acquired in March 2007. FPE's seal cutting machines also continued to service demand for urgently required, customised seals.

Half Year Review continued to 31 March 2008

Controls

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

	Half Year		
	2008	2007	
Revenue	£33.9m	£30.0m	+13%
Operating profit	£5.3m	£4.6m	+15%
Operating margin	15.6%	15.3%	

Revenues and operating profits in the first half of the year increased by 13% and 15% respectively, over the prior year comparable period. Results benefited from the contribution from Cabletec, acquired in August 2007, as well as from the positive impact on translation of the strengthening Euro. Adjusting for currency effects and acquisitions, revenues reduced by 2% against a strong prior year comparative, which had been boosted by major projects supplied by Filcon. Operating margins were 15.6% compared with 15.3% in the prior year comparable period.

The UK Controls businesses increased sales by 19% over the prior comparable period, benefiting from a full half year contribution from Cabletec. The IS Group delivered another strong first half performance with the Aerospace and Commercial Electronics sectors benefiting from a number of specific projects. Sales to the Defence sector were slower with some reduction in Urgent Operational Requirements (UOR's). However, the second half is expected to benefit from the flow through of ongoing design-in activities across all markets.

Cabletec delivered a solid performance as initial actions were taken to train the IS Group and Sommer salesforces to sell Cabletec's range of earth bonding leads in the UK and Germany. There will also be benefits in the second half of the year from the recently completed review of purchasing synergies and the integration of back office functions. Hawco's sales were in line with expectations with strong demand generated from Refrigeration OEMs and other new marketing initiatives.

Internationally, the IS Group again delivered good growth with increased sales in Europe to Motorsport

customers and to sub-distributors. In the US, the business continued to grow with increased sales delivered by the newly opened North Carolina office. The long awaited decision has now been taken to combine the IRL and Champ Car series and this should remove uncertainty and open up new opportunities.

The German Controls businesses saw sales increase by 4% in UK sterling terms, but this represents a 6% decline in sales on a constant currency basis. Sommer continued to deliver good growth in the supply of specialised wire and cable and heat shrink tubing to customers in the Civil Aerospace, Defence, Motorsport and Medical sectors. Filcon had an exceptional year in 2007, with record connector deliveries against a number of major contracts in the Defence, Aerospace and Rail sectors. Sales in the first half of 2008 saw a reduction from this strong prior year performance, but sales are still some 50% higher than comparable 2006 levels. Filcon's Motorsport connector business is developing well in Germany and has now been extended into the UK.

FINANCE

Free cash flow

The Group generated free cash flow of £5.4m during the period, compared with £1.7m in the comparable period last year. The improvement was driven by strong cash flow from operations of £10.7m, which was £4.3m up on the comparable period last year. The seasonal increase in working capital was £3.8m (2007: £4.8m) reflecting the impact of increased sales and decisions taken to increase inventories to secure price and supply. Tax payments in the period were £4.0m (2007: £4.3m) and a total of £0.9m (2007: £0.9m) was invested in the businesses, in capital equipment and IT infrastructure.

Acquisitions

On 3 March 2008 the Group acquired a further 11.2% of the outstanding shares in Somagen from the minority shareholders for consideration of £3.6m. These shares were acquired following the exercise of put/call options, agreed at the time of acquisition in July 2004. In connection with this transaction, an exceptional dividend was declared which resulted in a payment

Half Year Review continued to 31 March 2008

of £0.9m to the minority shareholders of Somagen. The minority shareholders of Somagen are also directors/employees of Somagen and accordingly these transactions 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 2008.

In addition, on 5 February 2008, the Group acquired 100% of Hitek Group Limited, a company based in West Sussex, UK, for net cash consideration of £2.4m, including expenses.

Net cash funds

Net cash funds at 31 March 2008 were £7.2m; the impact of spending £6.0m on acquisitions and £4.9m on dividends during the period led to a reduction in net cash funds of £5.2m, from £12.4m at 30 September 2007.

In November 2007, the Group secured a new revolving three year credit facility of £20.0m, in addition to the existing overdraft facility of £5.0m.

Exchange rates

During the six month period, UK sterling weakened by ca. 10% against both the Euro and the Canadian dollar and strengthened against the US dollar by ca. 3%. The net impact on the Group's results from the translation of the results of overseas businesses was to increase revenue by £1.6m and operating profits by £0.4m, compared with the comparable period last year. However, some of this benefit to operating profits was offset by lower margins earned on product purchased by the UK businesses from overseas manufacturers.

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 24-26 of the 2007 Annual Report. In summary these are:

- Strategic risks – 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

The continuing focus of the Group is on supplying specialised technical products and services, mostly funded by operating, rather than capital budgets. The resilience of the businesses was again demonstrated in the first half results and will continue to underpin the Group's performance in the second half. With further contributions from the new acquisitions, the Board remains confident of making further progress in the second half of the year.

BM Thompson

Chief Executive Officer
12 May 2008

Condensed Consolidated Income Statement

for the six months ended 31 March 2008

	Note	Unaudited 31 March 2008 £m	Unaudited 31 March 2007 £m	Audited 30 Sept 2007 £m
REVENUE	3	85.3	68.2	140.7
Cost of sales		(54.6)	(43.7)	(90.1)
Gross profit		30.7	24.5	50.6
Distribution costs		(2.5)	(2.1)	(4.2)
Administration costs		(15.1)	(12.3)	(24.3)
OPERATING PROFIT, BEFORE AMORTISATION OF ACQUISITION INTANGIBLE ASSETS	3	13.1	10.1	22.1
Amortisation of acquisition intangible assets		(1.3)	(0.2)	(1.0)
OPERATING PROFIT	3	11.8	9.9	21.1
Finance (expense)/income, net	4	(0.3)	0.6	1.2
PROFIT BEFORE TAX		11.5	10.5	22.3
Tax expense	5	(3.8)	(3.5)	(7.5)
PROFIT FOR THE PERIOD		7.7	7.0	14.8
Attributable to:				
Shareholders of the Company		7.2	6.8	14.3
Minority interests		0.5	0.2	0.5
		7.7	7.0	14.8
EARNINGS PER SHARE				
Basic and diluted earnings	6	6.4p	6.0p	12.7p

ALTERNATIVE PERFORMANCE MEASURES (note 2)

	Note	31 March 2008 £m	31 March 2007 £m	30 Sept 2007 £m
Profit before tax		11.5	10.5	22.3
Add: Amortisation of acquisition intangible assets		1.3	0.2	1.0
Fair value remeasurements	4	0.3	-	-
ADJUSTED PROFIT BEFORE TAX		13.1	10.7	23.3
ADJUSTED EARNINGS PER SHARE	6	7.6p	6.3p	14.0p

Condensed Consolidated Balance Sheet

as at 31 March 2008

	Note	Unaudited 31 March 2008 £m	Unaudited 31 March 2007 £m	Audited 30 Sept 2007 £m
NON-CURRENT ASSETS				
Goodwill		48.7	30.9	42.7
Acquisition intangible assets		19.3	1.9	20.1
Other intangible assets		1.2	0.7	1.0
Property, plant and equipment		11.6	9.4	11.7
Deferred tax assets		1.3	3.1	1.5
		82.1	46.0	77.0
CURRENT ASSETS				
Inventories		30.2	24.2	27.4
Trade and other receivables		29.0	23.6	26.0
Cash and cash equivalents		9.6	28.9	12.4
		68.8	76.7	65.8
CURRENT LIABILITIES				
Trade and other payables		(27.1)	(21.0)	(27.1)
Current tax liabilities		(3.4)	(2.3)	(3.0)
Other liabilities	8	(1.4)	-	(4.8)
Borrowings		(2.4)	-	-
		(34.3)	(23.3)	(34.9)
NET CURRENT ASSETS		34.5	53.4	30.9
TOTAL ASSETS LESS CURRENT LIABILITIES		116.6	99.4	107.9
NON-CURRENT LIABILITIES				
Retirement benefit obligations		(1.5)	(4.6)	(1.6)
Other liabilities	8	(8.6)	-	(8.7)
Deferred tax liabilities		(4.9)	-	(5.1)
NET ASSETS		101.6	94.8	92.5
EQUITY				
Share capital	9	5.7	1.1	1.1
Capital redemption reserve	9	-	0.2	0.2
Translation reserve		3.1	(1.9)	0.6
Hedging reserve		0.1	-	(0.6)
Retained earnings		91.5	94.0	89.4
TOTAL SHAREHOLDERS' EQUITY		100.4	93.4	90.7
Minority interests		1.2	1.4	1.8
TOTAL EQUITY		101.6	94.8	92.5

Condensed Consolidated Statement of Recognised Income and Expense

for the six months ended 31 March 2008

	Unaudited 31 March 2008 £m	Unaudited 31 March 2007 £m	Audited 30 Sept 2007 £m
Exchange rate adjustments on foreign currency net investments	2.5	(2.6)	(0.1)
Changes in fair value of cash flow hedges	0.7	-	(0.6)
Actuarial gains on defined benefit pension schemes	-	-	2.7
Deferred tax	(0.2)	-	(0.6)
Net income/(expense) recognised directly in equity for the period	3.0	(2.6)	1.4
Profit for the period	7.7	7.0	14.8
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD	10.7	4.4	16.2
Attributable to:			
Shareholders of the Company	10.2	4.2	15.8
Minority interests	0.5	0.2	0.4
	10.7	4.4	16.2

OTHER CHANGES IN SHAREHOLDERS' EQUITY

Note	Share capital £m	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 1 October 2006	1.1	0.2	0.7	-	90.9	92.9
Total recognised income and expense for the period attributable to shareholders	-	-	(2.6)	-	6.8	4.2
Share-based payments expense	-	-	-	-	0.3	0.3
Purchase of own shares	-	-	-	-	(0.6)	(0.6)
Dividends	-	-	-	-	(3.4)	(3.4)
At 31 March 2007	1.1	0.2	(1.9)	-	94.0	93.4
Total recognised income and expense for the period attributable to shareholders	-	-	2.5	(0.6)	9.7	11.6
Share-based payments expense	-	-	-	-	0.2	0.2
Purchase of own shares	-	-	-	-	(0.7)	(0.7)
Future purchases of minority interests	-	-	-	-	(11.8)	(11.8)
Dividends	-	-	-	-	(2.0)	(2.0)
At 30 September 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	9	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	8	-	-	-	3.6	3.6
Dividends	-	-	-	-	(4.0)	(4.0)
At 31 March 2008	5.7	-	3.1	0.1	91.5	100.4

Condensed Consolidated Cash Flow Statement

for the six months ended 31 March 2008

	Note	Unaudited 31 March 2008 £m	Unaudited 31 March 2007 £m	Audited 30 Sept 2007 £m
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash flow from operations	7	10.7	6.4	23.0
Finance income received, net		–	0.6	1.1
Tax paid		(4.0)	(4.3)	(8.0)
NET CASH FROM OPERATING ACTIVITIES		6.7	2.7	16.1
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of subsidiaries (net of cash acquired)	8	(6.0)	(5.3)	(31.6)
Proceeds from the sale of property, plant and equipment		–	0.5	0.6
Purchase of property, plant and equipment		(0.6)	(0.6)	(1.6)
Purchase of other intangible assets		(0.3)	(0.3)	(0.6)
NET CASH USED IN INVESTING ACTIVITIES		(6.9)	(5.7)	(33.2)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid to shareholders		(4.0)	(3.4)	(5.4)
Dividends paid to minority interests		(0.9)	(0.3)	(0.3)
Purchase of own shares		(0.4)	(0.6)	(1.3)
Proceeds from borrowings		2.4	–	–
NET CASH USED IN FINANCING ACTIVITIES		(2.9)	(4.3)	(7.0)
NET DECREASE IN CASH AND CASH EQUIVALENTS				
		(3.1)	(7.3)	(24.1)
Cash and cash equivalents at beginning of period		12.4	36.7	36.7
Effect of exchange rates on cash and cash equivalents		0.3	(0.5)	(0.2)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		9.6	28.9	12.4

ALTERNATIVE PERFORMANCE MEASURES (note 2)

	31 March 2008 £m	31 March 2007 £m	30 Sept 2007 £m
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3.1)	(7.3)	(24.1)
Add: Dividends paid to shareholders	4.0	3.4	5.4
Dividends paid to minority interests	0.9	0.3	0.3
Acquisition of subsidiaries (net of cash acquired)	6.0	5.3	31.6
Less: Proceeds from borrowings	(2.4)	–	–
FREE CASH FLOW	5.4	1.7	13.2

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 March 2008

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 2008 comprises the Company and its subsidiaries (together referred to as the “Group”).

The comparative figures for the financial year ended 30 September 2007 are not the Group’s statutory accounts for that financial year. 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 237(2) or (3) of the Companies Act 1985. The figures for the six months ended 31 March 2007 were extracted from the 2007 Interim Report, which was unaudited.

The Group’s audited consolidated financial statements for the year ended 30 September 2007 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 2008 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 2007.

This set of financial statements were approved by the Board of Directors on 12 May 2008; 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 2007.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the year ending 30 September 2008 and are relevant to the Group:

IFRS 7, Financial Instruments: Disclosures, and *IAS 1, Amendments to Capital Disclosures*, are effective for the year ending 30 September 2008. These require the Group to provide disclosures on the significance of financial instruments on its financial position and performance, together with additional qualitative and quantitative information about exposure to risks arising from financial instruments. These will have no effect on reported income or net assets.

IFRIC 11, Group and Treasury Share Transactions is effective for the year ending 30 September 2008, but will have no effect on reported income or net assets.

The following new standards, amendments to standards and interpretations have been issued and are relevant to the Group, but are not effective for the financial year ending 30 September 2008 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 2007.

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 further 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 2008

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			Operating profit*			Operating profit		
	31 March 2008 £m	31 March 2007 £m	30 Sept 2007 £m	31 March 2008 £m	31 March 2007 £m	30 Sept 2007 £m	31 March 2008 £m	31 March 2007 £m	30 Sept 2007 £m
By Activity									
Life Sciences	31.4	21.3	44.7	5.1	3.2	6.6	4.4	3.2	6.0
Seals	20.0	16.9	36.0	2.7	2.3	5.8	2.3	2.1	5.5
Controls	33.9	30.0	60.0	5.3	4.6	9.7	5.1	4.6	9.6
	85.3	68.2	140.7	13.1	10.1	22.1	11.8	9.9	21.1
By Geographic Area									
United Kingdom	37.2	32.3	66.6	4.1	4.1	8.8	3.6	4.1	8.2
Rest of Europe	16.5	12.4	25.1	2.7	2.1	4.3	2.5	2.1	4.3
North America	31.6	23.5	49.0	6.3	3.9	9.0	5.7	3.7	8.6
	85.3	68.2	140.7	13.1	10.1	22.1	11.8	9.9	21.1

*before amortisation of acquisition intangible assets

4. FINANCE (EXPENSE)/INCOME, NET

The net finance expense of £0.3m is after charging £0.3m on remeasurement of the fair value of the liability for future purchases of minority interests and £0.1m for the revolving credit facility of £20.0m, arranged in November 2007.

5. TAXATION

	31 March 2008 £m	31 March 2007 £m	30 Sept 2007 £m
UK tax charge	1.2	1.6	3.0
Overseas tax charge	2.6	1.9	4.5
TOTAL TAX CHARGE	3.8	3.5	7.5

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 33.0% (2007: 33.3%). The effective rate of tax on adjusted profit before tax, excluding the associated tax effects, is 31.3% (2007: 31.8%).

The reduction in the German tax rate enacted in July 2007 and the reduction in the UK tax rate at 31 March 2008 from 30% to 28%, has not had a significant impact on the tax charge.

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 112,302,472 (2007: 112,587,598) and the profit for the period attributable to shareholders of £7.2m (2007: £6.8m). 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 2008 pence per share	31 March 2007 pence per share	30 Sept 2007 pence per share	31 March 2008 £m	31 March 2007 £m	30 Sept 2007 £m
Profit before tax				11.5	10.5	22.3
Tax expense				(3.8)	(3.5)	(7.5)
Minority interests				(0.5)	(0.2)	(0.5)
Earnings for the period attributable to shareholders of the Company	6.4	6.0	12.7	7.2	6.8	14.3
Amortisation of acquisition intangible assets	1.2	0.2	0.9	1.3	0.2	1.0
Fair value remeasurements	0.3	–	–	0.3	–	–
Tax effects on goodwill, acquisition intangible assets and fair value remeasurements	(0.3)	0.1	0.4	(0.3)	0.1	0.4
ADJUSTED EARNINGS	7.6	6.3	14.0	8.5	7.1	15.7

7. RECONCILIATION OF CASH FLOW FROM OPERATIONS

	31 March 2008 £m	31 March 2007 £m	30 Sept 2007 £m
Profit for the period	7.7	7.0	14.8
Depreciation	1.2	0.9	1.8
Amortisation of acquisition intangible assets	1.3	0.2	1.0
Share-based payments expense	0.3	0.3	0.5
Finance expense/(income)	0.3	(0.6)	(1.2)
Tax expense	3.8	3.5	7.5
Operating cash flow before changes in working capital	14.6	11.3	24.4
Increase in inventories	(1.7)	(0.9)	(0.2)
Increase in trade and other receivables	(2.3)	(2.9)	(1.2)
Increase/(decrease) in trade and other payables	0.2	(1.0)	0.3
Cash paid into defined benefit schemes	(0.1)	(0.1)	(0.3)
CASH FLOW FROM OPERATIONS	10.7	6.4	23.0

Notes to the Condensed Consolidated Financial Statements continued

for the six months ended 31 March 2008

8. ACQUISITIONS

On 5 February 2008, the Group acquired 100% of the share capital of Hitek Group Limited ("Hitek") for consideration, net of cash acquired, of £2.4m. The fair value of identifiable assets and liabilities of the acquired business was £0.1m, including cash of £0.1m. Goodwill of £2.4m arose on this acquisition which comprised the value in the business relating to the product know-how held by the employees. The contribution of Hitek to the Group's revenue and operating profit for the six months ended 31 March 2008 was £0.2m and £0.1m respectively.

On 3 March 2008, the Group acquired 11.8% of the ordinary share capital of Somagen Diagnostics Inc. ("Somagen") for £3.6m (C\$7.2m) from the minority shareholders of Somagen. As a consequence, the liability of £3.6m recognised in the consolidated financial statements at 30 September 2007 has been released to retained earnings. The Group now owns 91.8% of the issued share capital of Somagen.

At 31 March 2008 the liability in respect of the Group's put/call options to acquire the outstanding minority shareholdings in its subsidiaries was £8.6m. The Group also had a liability of £1.8m at 31 March 2008 in respect of deferred consideration payable to the vendors of AMT and Cabletec.

9. SHARE CAPITAL

Allotted, issued and fully paid ordinary shares of 5p each	Number	£m
At 1 October 2007	22,647,911	1.1
Bonus issue of shares	90,591,644	4.6
At 31 March 2008	113,239,555	5.7

On 21 January 2008 the Company undertook a bonus issue of four new ordinary shares of 5 pence each for each ordinary share held by shareholders of the Company. The bonus issue resulted in the issue of 90,591,644 new ordinary shares, representing the capitalisation of £4.4m of the Company's retained earnings, together with £0.2m which was held in the capital redemption reserve.

As a consequence of this bonus issue, the comparative earnings and dividends per share included in this Interim Report have been restated.

10. DIVIDENDS

The Directors have declared an interim dividend of 2.5p per share (2007: 1.8p) payable on 18 June 2008 to shareholders on the register on 23 May 2008. The total value of the dividend is £2.8m (2007: £2.0m).

11. EXCHANGE RATES

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

	31 March 2008	Average 31 March 2007	30 Sept 2007	31 March 2008	Closing 31 March 2007	30 Sept 2007
US Dollar	2.01	1.95	1.98	1.99	1.96	2.04
Canadian Dollar	2.00	2.25	2.18	2.04	2.26	2.02
Euro	1.35	1.49	1.48	1.25	1.47	1.43

Responsibility Statement of the Directors in respect of the Interim Report 2008

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 2007. There have been no changes in the period.

By Order of the Board

BM Thompson
Chief Executive Officer
12 May 2008

NP Lingwood
Group Finance Director
12 May 2008

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