NEWSRELEASE

DIPLOMA PLC

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FOR IMMEDIATE RELEASE

10 May 2010

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 MARCH 2010

	Unaudited Six months ended 31 March 2010 £m	Unaudited Six months ended 31 March 2009 £m	Audited Year ended 30 Sept 2009 £m
Revenue	**86.2**	80.3	160.0
Operating profit(1)	**14.6**	11.9	25.6
Operating margin(1)	**16.9%**	14.8%	16.0%
Adjusted profit before tax(1),(2),(3)	**14.6**	12.0	25.5
Profit before tax	**11.3**	9.3	20.5
Free cash flow(3)	**16.6**	6.8	23.5
	Pence	Pence	Pence
Adjusted earnings per share(1),(2),(3)	**8.4**	6.9	14.8
Basic earnings per share	**5.7**	4.7	10.8
Interim dividend per share	**2.8**	2.5	7.8

The results of the discontinued business of Anachem have been excluded from the analyses presented above.
(1) Before amortisation of acquisition intangible assets
(2) Before fair value remeasurement of put options over shares held by minorities
(3) Alternative performance measures are defined in note 2 to the condensed set of consolidated financial statements

- Revenue increased by **7%** with an improving trend into the second quarter.
- Adjusted profit before tax increased by **22%** and benefited from the successful cost reduction programmes implemented during the first half of FY2009.
- After adjusting for currency effects and acquisitions, underlying revenue and operating profits increased by **4%** and **17%** respectively.
- Sale of Anachem MLH and Instruments businesses completed.
- Free cash flow of **£16.6m**, including net proceeds of **£6.3m** on sale of business; cash funds at 31 March 2010 of **£28.4m**.
- Interim dividend increased **12%** to **2.8p** per share.

Commenting on the results for the period, Bruce Thompson, Diploma's Chief Executive said:

"The improving trend in trading activity in most of the Group's market segments continues to gain momentum. This, together with a more favourable environment for acquisitions, provides the Board with confidence that the Group should continue to make progress in the second half of the year."

For further enquiries please contact:

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NOTE TO EDITORS:

Diploma PLC is an international group of businesses supplying specialised technical products and services to the Life Sciences, Seals and Controls industries.

Diploma achieves stable growth and attractive margins from its focus on supplying specialised technical products to markets which value high levels of customer service, technical support and value adding activities. A high proportion of revenues are generated from essential products and services funded by operating, rather than capital budgets.

The Group employs ca. 825 employees and its principal operating businesses are located in the UK, Germany, US and Canada.

Over the last five years, the Group has grown adjusted earnings per share at an average of ca. 16% p.a. through a combination of organic growth and acquisitions. The current market capitalisation is ca. £250m.

Further information on Diploma PLC can be found at www.diplomaplc.com

HALF YEAR REVIEW TO 31 MARCH 2010

In the first half of 2010, the Group's markets have stabilised and there are now signs of an underlying increase in trading activity across most market segments, which has become more evident in the second quarter.

The Group's revenues increased by 7% over the comparable period. The results benefited from the acquisition of RTD Seals in January 2009 and there were also modest net benefits on the translation into UK sterling of the results of the overseas businesses. On an underlying basis, after adjusting for currency effects and acquisitions, Group revenues increased by 4%.

There were continuing gains to profitability from cost reductions implemented in the first half of the 2009 financial year. As a result, operating profits increased by 23% over the comparable period, with operating margins increasing strongly to 16.9%. Adjusting for both currency effects on translation and acquisitions, underlying operating profits increased by 17%.

Free cash flow for the period was £16.6m (2009: £6.8m), including net proceeds of £6.3m received on completion of the sale of the Manual Liquid Handling ("MLH") business of Anachem; the Group ended the period with cash funds of £28.4m. The strong balance sheet and continuing cash flow provide the resources to exploit the increasing number of acquisition opportunities which are now starting to emerge in an improving market.

RESULTS AND DIVIDENDS

In the six months ended 31 March 2010, Group revenue increased by 7% to £86.2m (2009: £80.3m). Operating profit, before the amortisation of acquisition intangible assets, increased by 23% to £14.6m (2009: £11.9m). Operating margins increased to 16.9%, compared to 14.8% in the prior year comparable period.

Adjusted profit before tax increased by 22% to £14.6m (2009: £12.0m). On an IFRS basis, profit before tax also increased by 22% over the comparable period to £11.3m (2009: £9.3m).

Adjusted earnings per share increased by 22% to 8.4p (2009: 6.9p); basic earnings per share were 5.7p (2009: 4.7p). The Directors have declared an increased interim dividend of 2.8p per share (2009: 2.5p), payable on 16 June 2010 to shareholders on the register on 21 May 2010.

In January 2010, the Group completed the disposal of the MLH business of Anachem for initial cash proceeds of £7.7m, before expenses. The results of Anachem are classified as discontinued and the results of the comparable period have been restated accordingly. The contribution to profit after tax from the discontinued business was £5.2m and included a profit on disposal of the business of £5.6m.

OPERATING REVIEW

Life Sciences

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

	Half Year		
	2010	**2009**	
Revenue	**£26.9m**	£24.4m	+10%
Operating profit	**£5.9m**	£4.6m	+28%
Operating margin	**21.9%**	18.9%	

Life Sciences sector revenues in the first half of the year increased by 10% over the prior year comparable period. The results benefited on translation from the stronger Canadian dollar, relative to UK sterling; adjusting for these currency effects, sector revenues increased by 3%. On a transaction basis, the strengthening of the Canadian dollar relative to the US dollar had a positive effect on gross margins in the Canadian businesses. This, together with the reduced cost base in the a1-group following its 2009 restructuring, resulted in an increase in sector operating margins to 21.9% (2009: 18.9%).

The ***DCHI*** healthcare businesses in Canada continued to make progress in a market where overall public funding remains steady; however, opportunities are somewhat constrained by lengthy tender processes and limits set by individual Provinces on the number and cost of specific medical procedures in important jurisdictions such as British Columbia and Ontario. Against this background, total DCHI revenues grew by 4% in Canadian dollars, which translates to an increase of 14% in UK sterling terms.

In AMT, sales of consumable products used in electrosurgery procedures have shown good growth, with increasing volumes of the core smoke evacuation products sold into existing and new accounts. There has also been good penetration of these accounts with a broader range of surgical products such as disposable scissor tips and clips. In the GI/Endoscopy business, sales of capital equipment have been strong and have included the first sale of a new instrument to treat Barrett's oesophagus, an early stage of oesophageal cancer. Sales of flexible endoscopic instruments have also grown strongly.

In Somagen, there has been continued growth in revenues from consumable products supplied to hospital pathology laboratories under longer term reagent rental contracts. Increased sales of products from the core suppliers have largely offset the reduced sales of test kits from the discontinued Biosite supplier. Sales of capital equipment have been slower due to capital expenditure constraints and extended tender processes.

In Europe, the ***a1-group*** experienced a 2% increase in revenues. The analyser and containment business saw good growth in Switzerland and France, with the improving performance underpinned by large projects for the supply of engineered enclosures for major pharmaceutical industry customers. In the UK, growth has been more modest and in Germany revenues reduced, but against a strong prior year comparative. CBISS continues to experience deferrals in decisions on major continuous emissions monitoring systems ("CEMS") projects and therefore has relied on smaller project work (standby systems, upgrades and replacement units) as well as service revenues.

Seals

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

	Half Year		
	2010	**2009**	
Revenue	**£26.3m**	£23.7m	+11%
Operating profit	**£3.2m**	£2.5m	+28%
Operating margin	**12.2%**	10.5%	

Seals sector revenues in the first half of the year increased by 11% over the prior year comparable period. The results benefited from a full half year contribution from RTD Seals, acquired in January 2009 and this more than offset the negative impact on translation of a weaker US dollar, relative to UK sterling. Adjusting for currency effects and acquisitions, sector revenues increased by 7%. When the market downturn impacted the North American and UK businesses in the first half of the 2009 financial year, the businesses acted quickly to reduce operating costs in line with the reduction in revenue. The positive impact of these cost reduction programmes can now be seen in the operating margins, which have increased to 12.2% (2009: 10.5%).

The ***HFPG*** group of businesses, predominantly based in North America, saw revenues increase by 22% in US dollar terms over the comparable period. The core Hercules business, with its focus on the Aftermarket, demonstrated its resilience during the market downturn and suffered less revenue reduction than other segments of the business. As a result, the recovery has been less marked, with revenues increasing by 2% over the comparable half year. However, there has been an improving trend over the period, with an increase in second quarter revenues following a fall in the first quarter.

The stronger recovery has been seen in those businesses supplying to industrial OEMs and construction equipment dealers, which were more severely impacted by the market downturn. The Bulldog and HKX businesses together have increased revenues by 7% in the half year, again with strong second quarter growth, following a fall in first quarter revenues.

RTD Seals was acquired in January 2009, at a time when it was significantly impacted by the downturn in industrial OEM demand. In common with the other HFPG businesses, RTD reacted well to the severe downturn by reducing operating costs and inventory; additional benefits came from integrating finance and other administrative functions into HFPG. Demand from key industrial OEM customers has now recovered and revenues have rebounded strongly at RTD Seals, particularly in the second quarter. In order to respond to this increasing demand, the sales and engineering teams have now been strengthened through selective recruitment.

In the UK, ***FPE***'s revenues recovered well and in Scandinavia, ***M Seals*** began to see a good improvement in customer enquiry levels. On a combined basis, there was a small increase of 1% in revenues relative to the prior year comparable period. However, sales improved by 9% relative to the second half of the 2009 financial year, reflecting the fact that the market downturn did not impact Continental Europe until the second half of the year.

Controls

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

	Half Year		
	2010	**2009**	
Revenue	**£33.0m**	£32.2m	+2%
Operating profit	**£5.5m**	£4.8m	+15%
Operating margin	**16.7%**	14.9%	

Controls sector revenues in the first half of the year increased by 2% over the prior year comparable period; this growth rate is broadly the same on a constant currency basis, as the Euro has shown little change relative to UK sterling in the comparable periods. Again, cost reduction programmes, implemented in the UK businesses in the first half of the 2009 financial year and in the German businesses in the second half, have contributed to an increase in operating margins to 16.7% (2009: 14.9%).

The ***UK Controls*** businesses increased revenues by 4% over the comparable period. The IS Group's sales to the Defence sector have remained robust, as funding for military ground vehicles in support of current active operations has remained a priority. Sales to the Motorsport sector have also been strong as teams utilised their budgets during the build stage of the season; demand for Clarendon's fastener products have made an exceptional contribution to this performance. Hawco has also seen good growth from its focus on Calibration Services and on Refrigeration, where Hawco is now a preferred supplier to a number of major food retailing groups in supplying products for their chilling systems. By contrast, revenues from other core market segments including Aerospace (both civil and military), Energy and general Industrial have under-performed.

The ***German Controls*** businesses saw revenues decrease by 1% over the comparable period. However, there was a 5% improvement relative to the second half of the 2009 financial year, again reflecting the fact that the market downturn did not impact Continental Europe until the second half of the year. The general Industrial sector has recovered quicker than anticipated and sales to the Medical sector have also remained strong. However, Motorsport sales in Germany have been severely impacted by the withdrawal of the Toyota and BMW teams from Formula 1. The Defence and Aerospace sectors produced a mixed performance with strong sales to the Manpack radio and the Tiger helicopter projects, but with certain military programmes deferred or delayed and weaker demand in general for civil aerospace projects.

FINANCE

Free cash flow

The Group generated free cash flow of £16.6m (2009: £6.8m) from the continuing businesses, which includes £6.3m of net proceeds received from the sale of the Anachem business. The strong cash flow also benefited from the significant improvement in trading, together with a continuing focus on containing working capital at a similar level to that achieved at 30 September 2009. A small inflow of £0.3m from a reduction in working capital contributed to Group working capital remaining at ca. 17% of revenue. Tax payments in the first half were £0.7m below the comparable period last year at £4.9m. Capital expenditure was also well below 2009 at £0.5m (2009: £1.0m), following the completion of Phase 1 of the warehouse automation project in the Seals business in Clearwater in the second half of last year.

Acquisitions and disposals

The Group completed the disposal of the MLH business of Anachem (as reported in last year's Annual Report) on 7 January 2010. Cash proceeds of £7.7m were received on completion, of which £0.7m will be held in escrow until July 2011. On 29 April 2010, the Group completed the sale of Anachem Instruments Limited to its management for consideration of £0.4m, of which £0.1m was received on completion. Deferred consideration of £0.4m was agreed with the vendors of Meditech and RT Dygert in respect of the settlement of their respective performance payments; £0.3m has been paid during the period ended 31 March 2010 and the balance will be paid shortly.

Net cash funds

Cash funds at 31 March 2010 were £28.4m, compared with £21.3m at 30 September 2009. The increase in funds of £7.1m included net proceeds of £6.3m on the sale of the Anachem business; dividends of £7.1m (2009: £6.3m) were paid during the period.

The Group retains a committed multicurrency credit facility of £20.0m which is due to expire in November 2010. A replacement committed credit facility will be finalised before the Group's full year results are announced in November 2010.

Exchange rates

With over 70% of the Group's revenues generated from businesses located outside the UK, the volatility in exchange rates continues to effect the Group's results. In the six months ended 31 March 2010, revenue and operating profits have increased by £0.5m and £0.4m respectively, from the translation of the results of the Group's overseas businesses.

On a transactional basis, margins earned in the Canadian Healthcare businesses have benefited in particular from the impact of the appreciation of the Canadian dollar on products purchased in US dollars and Euros. In the UK businesses, the weakness in UK sterling is an ongoing challenge to managing gross margins. The overall effect of currency movements on margins earned by these businesses is partly mitigated by forward foreign exchange contracts.

Related party transactions

On 12 January 2010 the Group acquired the remaining 8.2% of the outstanding shares in Somagen from the minority shareholders for consideration of £2.5m. 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 of £0.5m to the minority shareholders of Somagen. A further dividend of £0.6m was paid to the minority shareholders in AMT and M Seals. The minority shareholders of these companies are also directors and employees of Somagen, AMT and M Seals, respectively; 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 2010.

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 22-25 of the 2009 Annual Report. In summary these are:

- Strategic risks – a 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, loss of IT systems and disruption by service providers; and
- Financial risks – foreign currency risk, bad debts and inventory obsolescence, credit, interest 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 improving trend in trading activity in most of the Group's market segments continues to gain momentum. This, together with a more favourable environment for acquisitions, provides the Board with confidence that the Group should continue to make progress in the second half of the year.

BM Thompson
Chief Executive Officer
10 May 2010

Responsibility Statement of the Directors in respect of the Interim Report 2010

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 2009. There have been no changes in the period.

By Order of the Board

BM Thompson
Chief Executive Officer
10 May 2010

NP Lingwood
Group Finance Director
10 May 2010

Condensed Consolidated Income Statement
For the six months ended 31 March 2010

Continuing businesses	Note	**Unaudited 31 March 2010 £m**	Unaudited 31 March 2009 £m	Audited 30 Sept 2009 £m
Revenue	3	**86.2**	80.3	160.0
Cost of sales		**(54.3)**	(51.6)	(101.7)
Gross profit		**31.9**	28.7	58.3
Distribution costs		**(2.1)**	(2.2)	(4.1)
Administration costs		**(16.8)**	(16.0)	(31.7)
Operating profit, before amortisation of acquisition intangible assets	3	**14.6**	11.9	25.6
Amortisation of acquisition intangible assets		**(1.6)**	(1.4)	(3.1)
Operating profit	3	**13.0**	10.5	22.5
Finance expense, net	4	**(1.7)**	(1.2)	(2.0)
Profit before tax		**11.3**	9.3	20.5
Tax expense	5	**(4.2)**	(3.4)	(7.1)
Profit for the period from continuing businesses		**7.1**	5.9	13.4
Profit from discontinued business	10	**5.2**	0.3	0.9
Profit for the period		**12.3**	6.2	14.3
Attributable to:				
Shareholders of the Company		**11.6**	5.6	13.0
Minority interests		**0.7**	0.6	1.3
		12.3	6.2	14.3
Earnings per share				
Basic and diluted earnings - continuing	6	**5.7p**	4.7p	10.8p
Basic and diluted earnings – discontinued	6	**4.6p**	0.3p	0.8p
Basic and diluted earnings – continuing and discontinued	6	**10.3p**	5.0p	11.6p

Alternative Performance Measures (note 2)	Note	**31 March 2010 £m**	31 March 2009 £m	30 Sept 2009 £m
Profit before tax		**11.3**	9.3	20.5
Add: Amortisation of acquisition intangible assets		**1.6**	1.4	3.1
Fair value remeasurements	4	**1.7**	1.3	1.9
Adjusted profit before tax - continuing		**14.6**	12.0	25.5
Adjusted earnings per share – continuing	6	**8.4p**	6.9p	14.8p

Condensed Consolidated Balance Sheet
As at 31 March 2010

	Note	**Unaudited 31 March 2010 £m**	Unaudited 31 March 2009 £m	Audited 30 Sept 2009 £m
Non-current assets				
Goodwill		**65.7**	63.7	59.6
Acquisition intangible assets		**20.8**	18.7	21.2
Other intangible assets		**0.8**	1.1	0.8
Property, plant and equipment		**11.4**	12.8	11.6
Deferred tax assets		**2.2**	1.5	2.1
		100.9	97.8	95.3
Current assets				
Inventories		**29.7**	37.1	28.0
Trade and other receivables		**29.7**	30.6	25.2
Assets held for sale	10	**1.3**	-	5.4
Cash and cash equivalents		**28.4**	10.4	21.3
		89.1	78.1	79.9
Current liabilities				
Trade and other payables		**(29.1)**	(26.3)	(23.3)
Current tax liabilities		**(1.5)**	(1.4)	(1.8)
Other liabilities	9	**(9.2)**	(2.8)	(3.1)
Liabilities associated with assets held for sale	10	**(1.1)**	-	(3.5)
Borrowings		**-**	(4.9)	-
		(40.9)	(35.4)	(31.7)
Net current assets		**48.2**	42.7	48.2
Total assets less current liabilities		**149.1**	140.5	143.5
Non-current liabilities				
Retirement benefit obligations		**(4.0)**	(1.6)	(4.7)
Other liabilities	9	**(3.2)**	(10.3)	(10.6)
Deferred tax liabilities		**(3.9)**	(5.0)	(4.1)
Net assets		**138.0**	123.6	124.1
Equity				
Share capital		**5.7**	5.7	5.7
Translation reserve		**25.4**	20.0	18.7
Hedging reserve		**(0.5)**	2.4	0.3
Retained earnings		**105.0**	93.3	96.7
Total shareholders' equity		**135.6**	121.4	121.4
Minority interests		**2.4**	2.2	2.7
Total equity		**138.0**	123.6	124.1

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 31 March 2010

	Unaudited 31 March 2010 £m	Unaudited 31 March 2009 £m	Audited 30 Sept 2009 £m
Profit for the period	**12.3**	6.2	14.3
Exchange rate adjustments on foreign currency net investments	**6.7**	12.0	10.7
(Losses)/gains on fair value of cash flow hedges	**(0.8)**	1.7	(0.4)
Actuarial losses on defined benefit pension schemes	**-**	-	(3.1)
Deferred tax on items recognised in equity	**0.2**	(0.5)	1.0
Other comprehensive income for the period	**6.1**	13.2	8.2
Total comprehensive income for the period	**18.4**	19.4	22.5
Attributable to:			
Shareholders of the Company	**17.8**	18.6	21.2
Minority interests	**0.6**	0.8	1.3
	18.4	19.4	22.5

Condensed Consolidated Changes in Shareholders' Equity
For the six months ended 31 March 2010

	Note	**Share capital £m**	**Translation reserve £m**	**Hedging reserve £m**	**Retained earnings £m**	**Total £m**
At 1 October 2008		5.7	8.0	0.7	93.7	108.1
Total comprehensive income		-	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
Total comprehensive income		-	(1.3)	(2.1)	6.0	2.6
Share-based payments expense		-	-	-	0.2	0.2
Dividends		-	-	-	(2.8)	(2.8)
At 30 September 2009		5.7	18.7	0.3	96.7	121.4
Total comprehensive income		-	6.7	(0.8)	11.9	17.8
Share-based payments expense		-	-	-	0.3	0.3
Purchase of minority interests	8	-	-	-	2.5	2.5
Purchase of own shares		-	-	-	(0.4)	(0.4)
Dividends		-	-	-	(6.0)	(6.0)
At 31 March 2010		**5.7**	**25.4**	**(0.5)**	**105.0**	**135.6**

Condensed Consolidated Cash Flow Statement
For the six months ended 31 March 2010

Continuing businesses	Note	**Unaudited 31 March 2010 £m**	Unaudited 31 March 2009 £m	Audited 30 Sept 2009 £m
Cash flows from operating activities				
Cash flow from operations	7	**16.1**	13.3	34.2
Finance income received, net		**-**	0.1	-
Tax paid		**(4.9)**	(5.6)	(9.0)
Net cash from operating activities		**11.2**	7.8	25.2
Cash flows from investing activities				
Acquisition of subsidiaries (net of cash acquired)	8	**(2.8)**	(12.3)	(12.2)
Disposal of subsidiary (net of cash disposed)		**6.3**	-	-
Purchase of property, plant and equipment		**(0.4)**	(1.0)	(1.4)
Purchase of other intangible assets		**(0.1)**	-	(0.3)
Net cash from/(used in) investing activities		**3.0**	(13.3)	(13.9)
Cash flow from financing activities				
Dividends paid to shareholders		**(6.0)**	(5.6)	(8.4)
Dividends paid to minority interests		**(1.1)**	(0.7)	(0.7)
Purchase of own shares		**(0.4)**	-	-
Proceeds from borrowings		**-**	4.7	-
Net cash used in financing activities		**(7.5)**	(1.6)	(9.1)
Net cash flow (used in)/from discontinued business	10	**(0.7)**	0.3	1.7
Net increase/(decrease) in cash and cash equivalents		**6.0**	(6.8)	3.9
Cash and cash equivalents at beginning of period		**21.3**	15.7	15.7
Effect of exchange rates on cash and cash equivalents		**1.1**	1.5	1.7
Cash and cash equivalents at end of period		**28.4**	10.4	21.3

Alternative Performance Measures (note 2)		**31 March 2010 £m**	31 March 2009 £m	30 Sept 2009 £m
Net increase/(decrease) in cash and cash equivalents		**6.0**	(6.8)	3.9
Add:	Dividends paid to shareholders	**6.0**	5.6	8.4
	Dividends paid to minority interests	**1.1**	0.7	0.7
	Acquisition of subsidiaries (net of cash acquired)	**2.8**	12.3	12.2
Less:	Proceeds from borrowings	**-**	(4.7)	-
Free cash flow – continuing and discontinued		**15.9**	7.1	25.2
Less:	Free cash flow – discontinued	**0.7**	(0.3)	(1.7)
Free cash flow – continuing		**16.6**	6.8	23.5

Notes to the Condensed Consolidated Financial Statements
For the six months ended 31 March 2010

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 2010 comprises the Company and its subsidiaries (together referred to as the "Group").

The comparative figures for the financial year ended 30 September 2009 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 2009 were extracted from the 2009 Interim Report, which was unaudited, and have been restated to show the activities of Anachem Limited as a discontinued business.

The Group's audited consolidated financial statements for the year ended 30 September 2009 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 (www.diplomaplc.com).

1.1 Statement of compliance
The financial statements included in this Interim Announcement for the six months ended 31 March 2010 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 2009.

This set of financial statements were approved by the Board of Directors on 10 May 2010; 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 2009.

The following new standards, amendments and interpretations to existing standards have been published and have been endorsed by the EU; these are mandatory for the first time for the year ending 30 September 2010 and are relevant to the Group:

- IAS 1 (revised) 'Presentation of Financial Statements'
- IAS 23 (revised) 'Borrowing Costs'
- IAS 27 (revised) 'Consolidated and Separate Financial Statements'
- IFRS 2 (revised) 'Share-based Payment'
- IFRS 3 (revised) 'Business Combinations'
- IFRS 8 'Operating Segments'

IAS 1 (revised) 'Presentation of Financial Statements' requires the presentation of a statement of comprehensive income and the presentation of the statement of changes in equity as a primary statement. The changes are merely presentational and have not impacted the Group's reported profit or net assets.

IFRS 3 (revised) 'Business Combinations' applies to business combinations arising after 1 October 2009. Amongst other changes, the revisions effected by the new standard require subsequent changes in the fair value of contingent consideration payable in respect of an acquisition to be recognised in the income statement rather than against goodwill, and require transaction costs attributable to an acquisition to be recognised immediately in the income statement. These changes have not impacted the Group in the first half of the financial year.

IFRS 8 'Operating Segments' requires that operating segments should be determined on the basis of those segments whose operating results are regularly reviewed by the Board. This has not impacted the Group's presentation of its results and the Group continues to report using the same three business segments.

IAS 23 (revised) 'Borrowing Costs', IAS 27 (revised) 'Consolidated and Separate Financial Statements' and *IFRS 2 (revised) 'Share-based Payment'* have had no impact on the results or net assets of the Group.

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 2009. These were set out on pages 67 of the 2009 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 Announcement.

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 or business, fair value remeasurements under IAS 32 and IAS 39 in respect of 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 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 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.

3. ANALYSIS OF RESULTS - Continuing

Segmental information is presented in this Interim Announcement 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 origin.

	Revenue			Operating profit*			Operating profit		
	31 Mar 2010 £m	31 Mar 2009 £m	30 Sept 2009 £m	**31 Mar 2010 £m**	31 Mar 2009 £m	30 Sept 2009 £m	**31 Mar 2010 £m**	31 Mar 2009 £m	30 Sept 2009 £m
By Activity									
Life Sciences	**26.9**	24.4	49.9	**5.9**	4.6	10.6	**5.2**	4.0	9.2
Seals	**26.3**	23.7	48.2	**3.2**	2.5	5.5	**2.5**	2.0	4.2
Controls	**33.0**	32.2	61.9	**5.5**	4.8	9.5	**5.3**	4.5	9.1
	86.2	80.3	160.0	**14.6**	11.9	25.6	**13.0**	10.5	22.5
By Geographic Area									
United Kingdom	**26.7**	25.3	50.1	**3.9**	3.3	6.8	**3.5**	2.9	5.9
Rest of Europe	**17.2**	17.5	32.6	**2.4**	2.1	3.9	**2.1**	1.8	3.4
North America	**42.3**	37.5	77.3	**8.3**	6.5	14.9	**7.4**	5.8	13.2
	86.2	80.3	160.0	**14.6**	11.9	25.6	**13.0**	10.5	22.5

** before amortisation of acquisition intangible assets*

4. FINANCE EXPENSE, NET

	31 March 2010 £m	31 March 2009 £m	30 Sept 2009 £m
Finance income			
- interest receivable on short term deposits	**-**	0.1	0.1
	-	0.1	0.1
Finance expense			
- interest payable on bank borrowings	**-**	-	(0.1)
- fair value remeasurement of put options (note 9)	**(1.7)**	(1.3)	(1.9)
- net finance expense from defined benefit pension scheme	**-**	-	(0.1)
	(1.7)	(1.3)	(2.1)
Net finance expense	**(1.7)**	(1.2)	(2.0)

5. TAXATION - Continuing

	31 March 2010 £m	31 March 2009 £m	30 Sept 2009 £m
UK tax charge	**1.1**	1.0	2.2
Overseas tax charge	**3.1**	2.4	4.9
Total tax on profit for the period	**4.2**	3.4	7.1

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 37.2% (2009: 36.6%). The Group's adjusted effective rate of tax on adjusted profit before tax has remained consistent at 30.1% (2009: 30.0%).

6. EARNINGS PER SHARE

Basic and diluted earnings per share
Basic and diluted earnings per ordinary 5p share are calculated on the basis of the weighted average number of ordinary shares in issue during the period of 112,648,373 (2009: 112,262,222) and the profit for the period attributable to shareholders of £11.6m (2009: £5.6m). There were no potentially dilutive shares.

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

	31 Mar 2010 pence per share	31 Mar 2009 pence per share	30 Sept 2009 pence per share	**31 Mar 2010 £m**	31 Mar 2009 £m	30 Sept 2009 £m
Profit before tax - continuing				**11.3**	9.3	20.5
Tax expense				**(4.2)**	(3.4)	(7.1)
Minority interests				**(0.7)**	(0.6)	(1.3)
	5.7	4.7	10.8	**6.4**	5.3	12.1
Profit from discontinued business	**4.6**	0.3	0.8	**5.2**	0.3	0.9
Earnings for the period attributable to shareholders of the Company	**10.3**	5.0	11.6	**11.6**	5.6	13.0
Amortisation of acquisition intangible assets	**1.4**	1.2	2.7	**1.6**	1.4	3.1
Fair value remeasurements	**1.5**	1.2	1.7	**1.7**	1.3	1.9
Tax effects on goodwill, acquisition intangible assets and fair value remeasurements	**(0.2)**	(0.2)	(0.4)	**(0.2)**	(0.2)	(0.5)
Profit from discontinued business	**(4.6)**	(0.3)	(0.8)	**(5.2)**	(0.3)	(0.9)
Adjusted earnings – continuing	**8.4**	6.9	14.8	**9.5**	7.8	16.6

7. RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES - Continuing

	31 March 2010 £m	31 March 2009 £m	30 Sept 2009 £m
Profit for the period from continuing businesses	**7.1**	5.9	13.4
Depreciation/amortisation of tangible and other intangible assets	**1.0**	1.1	2.2
Amortisation of acquisition intangible assets	**1.6**	1.4	3.1
Share-based payments expense	**0.3**	0.3	0.5
Finance expense, net	**1.7**	1.2	2.0
Tax expense	**4.2**	3.4	7.1
Operating cash flow before changes in working capital	**15.9**	13.3	28.3
(Increase)/decrease in inventories	**(0.9)**	0.4	6.0
(Increase)/decrease in trade and other receivables	**(2.8)**	1.7	2.4
Increase/(decrease) in trade and other payables	**4.0**	(2.0)	(2.3)
Cash paid into defined benefit schemes	**(0.1)**	(0.1)	(0.2)
Cash flow from operating activities	**16.1**	13.3	34.2

8. ACQUISITIONS

On 12 January 2010, the Group acquired the remaining 8.2% of the ordinary share capital of Somagen Diagnostics Inc ("Somagen") for £2.5m (C$4.3m) from the minority shareholders of Somagen. As a consequence, the liability of £2.5m recognised in the consolidated financial statements at 30 September 2009 has been released to retained earnings.

On 17 December 2009, deferred consideration of £0.3m was paid to the vendors of Meditech in final settlement of their performance payment. The Group has agreed to pay £0.1m (US$0.2m) in deferred consideration to the vendors of RT Dygert in final settlement of their performance payment and this payment will be made shortly. The balance of deferred consideration not required has been adjusted in goodwill.

9. OTHER LIABILITIES

	31 March 2010 £m	31 March 2009 £m	30 Sept 2009 £m
Future purchases of minority interests	**12.3**	12.5	13.1
Deferred consideration	**0.1**	0.6	0.6
	12.4	13.1	13.7
Analysed as:			
Due within one year	**9.2**	2.8	3.1
Due after one year	**3.2**	10.3	10.6

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

	31 March 2010 £m	31 March 2009 £m	30 Sept 2009 £m
At 1 October	**13.1**	11.2	11.2
Released to retained earnings	**(2.5)**	-	-
Unwinding of discount	**0.5**	0.6	1.1
Fair value remeasurements	**1.2**	0.7	0.8
At end of period	**12.3**	12.5	13.1

The Group retains put options to acquire the outstanding minority shareholdings in AMT and M Seals which are exercisable between 1 October 2010 and 31 December 2012.

At 31 March 2010, 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 2010. This led to a remeasurement of the fair value of these put options and the liability was increased by £1.7m through a charge to the Condensed Consolidated Income Statement.

10. DISCONTINUED BUSINESS

As indicated in the 2009 Annual Report, Diploma PLC had signed a contract for the disposal of the Manual Liquid Handling ("MLH") business of Anachem Limited. The remainder of the business in Anachem Limited comprised the Instruments division which supplies laboratory automation products. This was transferred to a separate entity, Anachem Instruments Limited, prior to completion of the sale of the MLH business on 7 January 2010.

Notes to the Condensed Consolidated Financial Statements (continued)
For the six months ended 31 March 2010

Anachem Limited (and therefore Anachem Instruments Limited), was classified as a discontinued business in 2009 and its net assets were classified as "held for sale" as at 30 September 2009. The comparative Condensed Consolidated Income Statement and Condensed Consolidated Cash Flow Statement for the six months ended 31 March 2009 have been restated to show these activities as a discontinued business.

The results of the MLH business, until it was sold on 7 January 2010, together with the results of Anachem Instruments for the six months ended 31 March 2010 are set out below:

	31 March 2010 £m	31 March 2009 £m	30 Sept 2009 £m
Revenue	**5.0**	7.7	15.7
Cost of sales	**(4.1)**	(5.1)	(10.2)
Gross profit	**0.9**	2.6	5.5
Distribution costs	**(0.2)**	(0.3)	(0.6)
Administration costs	**(1.3)**	(1.9)	(3.7)
(Loss)/profit before tax	**(0.6)**	0.4	1.2
Tax credit/(expense)	**0.2**	(0.1)	(0.3)
(Loss)/profit after tax	**(0.4)**	0.3	0.9
Profit on disposal	**5.6**	-	-
Profit attributable to discontinued business	**5.2**	0.3	0.9

On 7 January 2010, the Group completed the disposal of the MLH business of Anachem Limited for a maximum consideration of £8.5m, before disposal costs. Initial cash proceeds of £7.7m were received, of which £0.7m is held in escrow and up to a maximum of £0.8m may be receivable, depending on the revenues generated in the 12 months to 31 December 2010. There is no tax payable on the profit on disposal of this business of £5.6m.

Assets and liabilities of Anachem Limited sold during the period ending 31 March 2010

	£m
Other intangible assets	0.3
Property, plant and equipment	0.2
Inventories	0.9
Trade and other receivables	1.2
Trade and other payables	(1.6)
Cash	0.1
Net assets disposed of	1.1
Profit on disposal	5.6
Consideration	**6.7**

	£m
Comprising:	
Cash received on completion	7.0
Less: Expenses of sale	(0.2)
Related disposal costs	(0.5)
Net cash proceeds received at 31 March 2010	**6.3**
Add: Cash held in escrow, net	0.4
Consideration	**6.7**

As part of the agreement to dispose of the MLH business of Anachem Ltd, the Trustees of the Anachem Limited Retirement Benefit Scheme ("Scheme") agreed to give their consent to transfer the residual liabilities in the Scheme to Diploma Holdings PLC ("DHPLC"). In return for receiving this consent, a cash sum of £625,000 was paid directly into the Scheme and is included in the net cash outflow of £0.7m from the discontinued business in the six months ended 31 March 2010.

At 31 March 2010, the net assets of Anachem Instruments Limited held for sale were £0.2m. On 29 April 2010, the Group sold Anachem Instruments Limited to certain members of its management team at net asset value for aggregate consideration of £0.4m. On completion £0.1m was received in cash; a further £0.1m will be receivable in August 2010 with the balance being received in further instalments.

11. DIVIDENDS

The Directors have declared an increased interim dividend of 2.8p per share (2009: 2.5p) payable on 16 June 2010 to shareholders on the register on 21 May 2010. The total value of the dividend is £3.2m (2009: £2.8m).

12. EXCHANGE RATES

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

	Average			Closing		
	31 March 2010	31 March 2009	30 Sept 2009	**31 March 2010**	31 March 2009	30 Sept 2009
US Dollar	**1.59**	1.48	1.54	**1.52**	1.43	1.60
Canadian Dollar	**1.68**	1.84	1.82	**1.54**	1.80	1.72
Euro	**1.12**	1.14	1.14	**1.12**	1.08	1.09