

COMPANY NUMBER: 3899 848

DIPLOMA PLC

ANNUAL REPORT AND ACCOUNTS 2002



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COMPANY STATEMENT

Diploma PLC is a 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.

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Financial Highlights

	2002	2001
Turnover from continuing businesses	£73.7m	£66.3m
Operating profit from continuing businesses, before exceptional items and goodwill amortisation	£8.9m	£8.8m
Profit before tax, exceptional items and goodwill amortisation	£9.9m	£10.9m
Profit before tax, after exceptional items	£10.1m	£8.7m
Basic earnings per share	31.2p	21.5p
Adjusted earnings per share	29.4p	30.2p
Dividends per share	14.0p	13.0p
Net assets per share	225p	221p

- Operating profit from continuing businesses, before exceptional items and goodwill amortisation, up to **£8.9m** from £8.8m.
- Profit before tax, after exceptional items of **£10.1m** compared with £8.7m last year.
- Basic earnings per share **31.2p**; after adjusting for exceptional items and goodwill amortisation, **29.4p**.
- Full year dividend up by 1.0p to **14.0p** per share; 2.1 times covered by Adjusted earnings per share.
- Operating cash flow of **£9.9m** and proceeds of **£3.0m** from sales of properties. Net funds of **£26.9m** at end of year.
- On market purchase of own shares returned **£8.5m** to shareholders; number of ordinary shares in issue at year end is **22.6m** (2001: 25.2m).
- Restructuring of US and European operations provides a lower cost base; benefits to accrue in 2003.
- Disposal of first seven acres of Stamford land completed after 30 September 2002 for **£2.6m** cash, before expenses.

GROUP STRUCTURE

LIFE SCIENCES	SEALS & COMPONENTS	INTERCONNECT
<p>Distributors of instrumentation, consumables and related services to the Life Science research laboratories of the major pharmaceutical and biotechnology companies, universities and research institutions</p> <p>BUSINESSES</p> <p>Anachem a1-biotech Envirotech</p> <p>Life Sciences contributes</p> <p>37%</p> <p>of core Group turnover</p>	<p>Catalogue based distributors of hydraulic seal kits, cylinder components and gaskets to repair and maintenance operations (RMOs) serving a broad range of mobile machinery after-markets</p> <p>BUSINESSES</p> <p>Hercules Bulldog Sealing Products FPE</p> <p>Seals & Components contributes</p> <p>38%</p> <p>of core Group turnover</p>	<p>Distributors of high performance wiring, thermal shrink fit components, fasteners and interconnect products supplied into defence, aerospace, motorsport and wider electronics markets</p> <p>BUSINESSES</p> <p>IS Rayfast IS Motorsport Clarendon Sommer</p> <p>Interconnect contributes</p> <p>25%</p> <p>of core Group turnover</p>

CHAIRMAN'S STATEMENT

The businesses have achieved a creditable result in difficult market conditions, demonstrating their inherent resilience. Cash flow again has been strong.

We have experienced difficult economic and trading conditions this year in most sectors in which we operate. However against this background, the businesses have demonstrated their inherent resilience and have achieved a creditable result. Actions taken during the year to consolidate our businesses to achieve a lower cost base, give me confidence that we are well positioned to take advantage of any economic or market recovery.

The Board remains committed to maximising value to shareholders through the expansion of the Group both by investment in the existing businesses and by acquisition.

The current economic environment is creating a number of interesting corporate opportunities and Diploma's strong balance sheet should allow the Group to capitalise on this. However, the Board continues to review the Group's capital requirements and this may result in future returns of surplus capital through share buy-backs.

RESULTS AND DIVIDENDS

Profit before tax increased by 16.1% to £10.1m from £8.7m benefiting from exceptional profits of £1.1m made on the sale of surplus properties.

After excluding exceptional items and goodwill amortisation, operating profits of the continuing businesses were £8.9m compared with £8.8m last year. Sales of the continuing businesses, with contributions from the Bulldog and Clarendon acquisitions, increased by 11.2% to £73.7m.

Basic earnings per share were 31.2 pence compared with 21.5 pence last year. Adjusted earnings per share, which are after excluding exceptional items and goodwill amortisation, were 29.4 pence compared with 30.2 pence last year.

Cash flow, historically a strength of the Diploma Group, has again been positive. Operating cash flow of £9.9m was supplemented by cash proceeds of £3.0m from the sale of surplus properties. After acquisitions and returning £8.5m cash to shareholders through an on market share purchase undertaken in December 2001, the Group's net cash funds decreased by £4.8m to £26.9m at the end of the year.

Since the year end, we have completed the sale of a first parcel of our property in Stamford for £2.6m in cash, before expenses. I am particularly pleased by this achievement as it is the first step in realising the rewards of effort over many years. We will continue to pursue the sale of further parcels of land, including the former brickworks site which is now vacant following the closure of Williamson Cliff during the year.

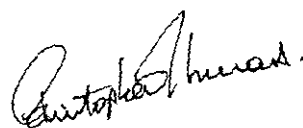
In view of the continuing strong cash generation, robust balance sheet and encouraging results achieved in difficult market conditions, the Directors are recommending an increased final dividend of 9.0 pence (8.0 pence), raising the total dividend payment for the year to 14.0 pence (13.0 pence), an increase of 7.7%.

EMPLOYEES AND DIRECTORS

In July this year, we welcomed John Rennocks to the Board as an independent Non-executive Director of the Company. John brings to Diploma his considerable experience as a finance director of a number of companies and also in a range of non-executive roles and I look forward to his contribution. I should also like to thank our employees, who make an essential contribution to the successful development of our businesses.

CURRENT TRADING

Although operating profit from continuing businesses was broadly flat year on year, the second half showed a good improvement over both the first half of the year and the second half of the prior year. The Group's businesses have started the new financial year in line with budget expectations and the actions we have taken in 2002 to reduce costs in both our US and European operations should provide a firm foundation for progress in 2003.



Christopher Thomas
Chairman
18 November 2002

CHIEF EXECUTIVE OFFICER'S REVIEW

The Group's strategy is to invest in Specialised Distribution businesses with long term growth potential and with the opportunity for sustainable superior margins through the quality of customer service, depth of technical support and other value-adding activities. The objective is to build more substantial, broader based businesses which meet these criteria in the three sectors of Life Sciences, Seals & Components and Interconnect.

With difficult economic and market conditions facing all of our businesses, the priority this year has been to continue the strategic development of the Group while at the same time pursuing operating efficiencies to maintain profitability. This has been achieved with further progression against each of the principal Group strategies. Sales from the continuing businesses increased by 11% to £73.7m (2001 : £66.3m) and operating profits were maintained at £8.9m (2001 : £8.8m). There have been contributions to both sales and operating profits from newly acquired businesses, but off-setting these have been similar levels of investment costs in start-up operations. The underlying performance of the businesses demonstrates their inherent resilience.

FOCUS ON GROWTH MARKET SEGMENTS

While the **Life Sciences** sector continues to have excellent long term growth prospects, this past year has been challenging for all industry participants. The major wave of research work related to the Human Genome project has passed through and the follow-on application research work in both genomics and proteomics has yet to take up the strain. The major pharmaceutical companies, with less confidence in the flow through their drug pipelines, are also carefully scrutinising all purchases of higher value instruments. Our response has been to reduce resources applied to the weaker Instrumentation segments while increasing investment in the Consumables and Service segments which have remained resilient.

The attraction of the **Seals & Components** sector is the recurring revenue stream due to the relatively short lifetime and regular replacement cycle of the product. As growth slowed in all end-use sectors, mobile equipment operators quickly cut back on new purchases from equipment OEM's. Initially, this also impacted the aftermarket with reductions in the inventories of replacement parts and delays in repair work. After a pause however, the demand for repair and maintenance parts has improved ahead of any recovery in OEM equipment purchases.

The **Interconnect** sector has been impacted by weak markets in commercial aerospace and in Germany in general. To offset these negative trends, growth has been generated by focusing on more buoyant segments such as Defence, Marine, Space and Medical. Market share gains have also been achieved in the Motorsport market, fuelled by the acquisition of Clarendon in the UK and the IS Motorsport start-up in the US.

CUSTOMER RELATIONSHIPS

A high priority for all our businesses is to build on strong customer relationships within our selected product/market segments. Selling a broader range of products into key customer accounts strengthens the ties with customers, as well as creating barriers to entry against competitors.

The acquisition of Clarendon has added a range of high performance fasteners to our Interconnect product portfolio. This has strengthened relationships with key customers in the Motorsport sector as well as generating many cross-selling opportunities with IS Rayfast.

In a similar way, with the acquisition of Bulldog in the US, we are now able to supply a broader range of sealing products (now including specialist gasket kits) to our customers in North America and internationally.

The Group maintains its focus on Specialised Distribution businesses with the potential for growth and superior margins.

ADDED VALUE SERVICES

We are constantly seeking to identify opportunities for new service offerings to complement our product sales. Again this strengthens customer relationships and gives justification for superior margins.

The Service offerings in our Life Sciences businesses have been particularly important in offsetting the effect of slower instrument sales. As part of their overall spending reviews, several industrial customers have begun to consolidate the maintenance and repair of their instruments by seeking to appoint a single contractor or supplier to co-ordinate the servicing of all the equipment on site. Anachem has been at the forefront of this initiative and during the year successfully arranged one of the earliest of these contracts with Pfizer. Strong growth has also been achieved in our pipette servicing business.

GEOGRAPHIC EXPANSION

Where we have achieved success in specific product/market segments, we seek to extend this into other geographies.

The acquisition of Bulldog, in addition to broadening the product range and customer base, has most importantly increased the international spread of our Seals & Components business. In this sector 35% of our sales are now outside the US.

The expansion of Anachem's environmental business into Germany and IS Motorsport into the US demonstrate the alternative investment approach of using start-up operations to expand geographically.

EFFICIENT AND RESPONSIVE INFRASTRUCTURE

We continue to invest in infrastructure and systems to give operational efficiencies and to provide a solid foundation for growth. This is an important element of value added by the Group when transforming small, owner managed companies into more substantial, broader based businesses.

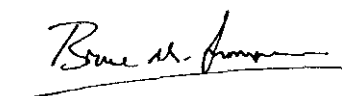
Following a programme of investment over the last 2-3 years, our principal businesses are all operating from purpose built or newly expanded facilities designed for efficient operations and with a scale to support significant future growth.

Investment is also ongoing in the areas of IT and e-commerce to ensure high levels of customer service as well as operational efficiency. As part of this continuing investment, a new integrated IT system which will service all the Seals & Components businesses, has been selected and will be installed during the year.

STRONG FOCUSED MANAGEMENT

Our culture has always been to ensure that strong, self standing management teams are in place in the operating businesses. Management progression has been effected to ensure appropriate and strong management teams are in place, motivated and rewarded according to success in their businesses.

With this management model, it is important not to overburden the businesses with centralised management and head office costs and this year these costs have reduced by over 16%. The Group head office is small and has very specific roles with the businesses in helping formulate and monitor their strategies, in developing management and in exerting financial control.



Bruce Thompson
Chief Executive Officer
18 November 2002

Life Sciences

↑ Scientists can have their pipettes back within the day when one of Anachem's field based technicians runs an on-site maintenance and calibration workshop.

↑ Laboratory staff need to handle potent powders safely while still performing their duties efficiently. We have developed a new range of enclosures to respond to this need.

↑ The range of ReactArray process optimisation products was expanded during the year with the introduction of the new 215SW workstation.

A close dialogue with end users helps Anachem to refine its added value services and develop new product lines

The Anachem group of companies supply Instrumentation, Consumables and Services to the Life Sciences research laboratories of the major pharmaceutical and biotechnology companies, universities and research institutions.

Sales in our Life Sciences businesses have decreased by 4% to £26.9m and operating profits have fallen back further than sales. Good advances were made in the Consumables, Service and Environmental segments of the business. However these gains were offset by sales reductions in the Instrumentation segments, where pharmaceutical and biotechnology companies have reduced expenditure. Operating profits have been impacted further by £0.4m of operating losses in the new German operations and investment of £0.3m in the ReactArray product line.

PIPETTES & PLASTICS

Anachem's Pipette & Plastics consumables business, with the associated pipette servicing activity, now accounts for ca. 40% of our total Life Science sales. The Consumables and Service segments are more insulated from reduced budgets in Pharmaceutical and Biotechnology sectors and have benefited from strong demand from academia and research institutions. Our consumables sales matched the strong performance of the previous year and pipette servicing grew by 15% through new contracts and a broader range of service offerings.

INSTRUMENTATION

With severe budget constraints within major pharmaceutical customers, Anachem's instrumentation business suffered. Sales of higher value instruments for use in pharmaceutical and genetic research were down by almost 30% compared to the previous year. Growth in the genomics sector

in particular slowed significantly through the year following the completion of research work associated with the Human Genome project. Anachem took action in the second half to rationalise the UK and German operations of a1-biotech. This will reduce costs while continuing to promote a more specialised range of genomic instrumentation.

ReactArray, Anachem's specialised process optimisation product, countered the general trend and performed well. The product range continued to be expanded with the introduction of a new robotic workstation designed to link the automated liquid handling process to the specialist ReactArray reaction vessels. Gains were also made in the capital service business which grew by 13% year on year.

ENVIRONMENTAL

The growing environmental business had another successful year and increased sales in the UK by 18%. The Mitsubishi range continued to make gains with the launch of new elemental analysers and a new range of enclosures for potent powders was introduced. Envirotech GmbH, our new start-up operation in Düsseldorf, is developing according to plan and is broadening our base in the sector.

Seals & Components

↑ Bulldog's facility in Reno, Nevada manufactures over 1 million soft gaskets annually. It also has the flexibility to accommodate short production runs for specialised off-road mobile equipment.

↑ The merger of Hercules and Bulldog provides the opportunity to install a single back office system while maintaining strong sales and marketing identities for different markets and geographies.

↑ Outside North America, Hercules Bulldog sells to local country distributors supplying a range of tractive parts for mobile equipment repair and maintenance.

Combining the strengths of Hercules and Bulldog expands our product range, buying power and geographic reach

REVIEW OF OPERATIONS SEALS & COMPONENTS

Hercules Bulldog Sealing Products and FPE offer a next day delivery service for hydraulic seal kits, cylinder components and gaskets, supplied to repair and maintenance operations (RMOs) serving a broad range of mobile machinery aftermarkets.

Our Seals & Components businesses increased sales by 31% to £28.2m and increased operating profits by a similar magnitude.

The sales performance was boosted by a full year contribution from Bulldog, but equally important were strong sales performances from both Hercules and FPE in challenging market conditions. Operating profits increased strongly in line with sales, as overheads were tightly controlled and benefits flowed through from prior year actions. A major restructuring has been completed in North America, grouping together our activities into Hercules Bulldog Sealing Products.

HERCULES BULLDOG SEALING PRODUCTS

Hercules performed well in a sluggish and uncertain US economy. The company continued to promote its products aggressively and to increase its product range, growing its sales in US dollar terms by 5% year on year. Gross margins were somewhat lower as competitors cut their prices to attempt to hold market share but Hercules demonstrated tight control over overheads and delivered solid growth in operating profits in both the US and Canada.

Bulldog (Pevco) was acquired immediately prior to the start of the year at broadly net asset value. It had been operating at close to break-even operating profit for several years. The acquisition has given a substantial boost to our international business outside the US since well over half of Bulldog's business was represented by export sales.

It has also broadened our customer base to include parts distributors supplying to specialised diesel engine rebuilders. Finally it has broadened the product line with a range of specialised gaskets.

The immediate priority post acquisition, was to secure the customer base by increasing service levels and delivery performance. By June 2002, we were ready to start the process of combining the Hercules and Bulldog companies into a single entity. The merger was completed on 30 September 2002 and there is now a single US corporate entity, Hercules Bulldog Sealing Products with three trading divisions - Domestic US, Canada and International. Exceptional costs of £0.6m have been incurred in implementing this new structure.

FLUID POWER EQUIPMENT (FPE)

FPE grew sales by 10% and delivered excellent profit growth as the benefits of earlier reorganisation activity and infrastructure investment began to take effect.

The new IT system to be installed this year will service all the Hercules Bulldog locations as well as FPE and will enable back office systems to be streamlined and the full benefits of the group's purchasing power to be achieved.

Interconnect

↑ Working closely with the naval dockyards and a specialist manufacturer, we introduced these lightweight, corrosion – free junction boxes.

↑ Our sales engineers in Germany developed a unique set of connectors for use on the solar panels of satellites.

↑ The acquisition of Clarendon, with its range of specialist fasteners, allows us to service the broader needs of our Motorsport customers.

Attention to detail and close working relationships with high quality manufacturers allow us to develop successful niche offerings.

The IS Group, Clarendon and Sommer are distributors of high performance wiring, thermal shrink components, fasteners and interconnect products supplies into Defence, Aerospace, Motorsport and Commercial Electronics.

Our Interconnect companies increased overall sales by 12% to £18.6m and increased operating profits by a similar percentage.

Sales were boosted by the acquisitions of Clarendon in December 2001, Dowatronic in April 2002 and the first full year of trading by IS Motorsport in the US. These contributions countered the effects of weak markets in Aerospace and Germany. Start-up operating losses of £0.1m in the US and increased facility costs at IS Rayfast were offset by reductions in other overhead costs.

IS RAYFAST

IS Rayfast started the year with a strong order book but was impacted by the downturn in the Aerospace market and by a generally subdued UK manufacturing environment. IS Rayfast managed to maintain its sales performance with gains in the Marine and Defence markets. Specialist printing and marking services for wire identification also made a good contribution. The Symonds Cableform range of high performance lacing cords and adhesives, acquired in September 2001, was integrated into IS Rayfast and achieved its objectives.

IS MOTORSPORT

In the UK, fewer Formula 1 teams finished the season than started and there were changes to car testing rules which resulted in a different demand profile for suppliers. However the introduction of our Kanban product replenishment service helped us to take market share and progress was made in export markets such as Japan.

In the US, IS Motorsport achieved its initial objective of establishing itself as a credible supplier to the IRL/CART open wheel racing series teams.

The priority in 2003 is to consolidate these initial gains and broaden the customer base to include other segments of the diverse US Motorsport industry.

CLARENDON

Clarendon, acquired in December 2001, is a supplier of high performance fasteners and seals to the UK Motorsport industry. Clarendon met its sales budget and made a strong profit contribution. In the final quarter of the year, Clarendon secured new business with a major UK supplier to US racing teams.

SOMMER

Sommer performed well to maintain its sales performance of the previous year in a depressed German manufacturing market. In particular, demand was weak from harness suppliers to wireless base stations and other telecommunication infrastructure projects. However, Sommer made advances in other market segments and geographic regions within Germany. It also used the acquisition of Dowatronic to strengthen its presence in the region of Bavaria as well as in the satellite and defence segments.

FINANCE DIRECTOR'S REVIEW

Turnover (£m)
(continuing operations)

Operating profit before goodwill and exceptional items (£m) (continuing operations)

Return on trading capital employed (%)

RESULTS FOR THE YEAR

Profit before tax, goodwill amortisation and exceptional items for the year ended 30 September 2002 was £9.9m compared with £10.9m last year. The second half of the year contributed £5.3m to the result, compared with £4.6m in the first half of the year and £4.8m in the second half of last year.

The Group's continuing businesses achieved operating profits, before goodwill amortisation and exceptional items of £8.9m, marginally up against last year's £8.8m and assisted by the contribution from Clarendon, acquired in December 2001. After adjusting for the net impact of acquisitions, discontinued businesses, and other one-off items, underlying profits were 4% below last year.

INTEREST INCOME

Interest income was £1.0m compared with £1.2m last year, partly reflecting the capital return of £8.5m made in December 2001. Average net cash funds were higher than last year, but interest rates were lower.

EXCEPTIONAL ITEMS

Exceptional items before tax contributed net profits of £0.5m compared with a net loss of £2.1m last year. An analysis of the exceptional items is set out in Note 6.

Exceptional items included costs of £0.6m, which were mainly redundancy costs, incurred in restructuring the Group's US operations. The Group's US operations, which will benefit from lower costs from this exercise, are now merged into one entity. The closure of Williamson Cliff, announced on 28 February 2002, gave rise to exceptional costs of £0.6m, and again were mainly redundancy costs. The business closed during the summer.

During 2002 the Group disposed of two surplus properties which had been retained from recent divestments. These generated cash proceeds of £3.0m and profits of £1.1m.

Since 30 September 2002, the Group has sold seven acres of its property near Stamford in the East Midlands for cash of £2.6m, before expenses. Since 1973, the Group has owned approximately 150 acres of land adjoining the Williamson Cliff operation in Stamford. A large part of this land comprises environmental and geological sites of special importance, but the Group has identified distinct parcels of land which are likely to have development potential. Having successfully completed the sale of seven acres, the Group is now pursuing the sale of a further eight acre site. There are also reasonable prospects for medium term development of the twelve acre brickworks site formally occupied by Williamson Cliff. These should give rise to exceptional profits in future years.

TAXATION

The current year tax charge of £3.0m on profit before goodwill amortisation and exceptional items represents an effective tax rate of 30.3% which is consistent with last year.

EARNINGS AND DIVIDENDS

Earnings per share, adjusted for exceptional items and goodwill amortisation, were 29.4 pence compared with 30.2 pence last year.

With a proposed final dividend of 9.0 pence, total dividends for the year are 14.0 pence, an increase of 7.7% on the prior year. Dividend cover against earnings before exceptional items and goodwill amortisation is 2.1 times.

ACQUISITIONS

On 20 December 2001 the Group acquired Clarendon, a distributor of fasteners, for £3.3m, net of cash acquired of £0.2m. A further £0.2m was incurred on purchasing a small distributor business in Germany.

The initial acquisition of Clarendon was financed by the issue of Loan Notes and both acquisitions included an element of deferred consideration. Accordingly only £2.2m in cash has been paid during the year.

The continuing businesses generated a strong operating cash flow of £9.9m benefiting from good control of working capital.

CASH FLOW

The continuing businesses generated a strong operating cash flow of £9.9m compared with £8.6m last year, benefiting from good control of working capital.

The proceeds from the sale of surplus properties of £3.0m, together with the strong operating cash flow, helped offset the impact of returning £8.5m of cash to shareholders.

At 30 September 2002 the Group's net cash funds had fallen £4.8m to £26.9m from £31.7m last year.

FINANCIAL POSITION

Shareholders' funds fell £4.7m to £50.9m at 30 September 2002 reflecting the impact of returning £8.5m capital to shareholders.

Return on trading capital employed, after taking account of goodwill, both capitalised and written off directly to reserves, was 20.3% compared with 21.7% last year.

PENSIONS

A pension provision of £0.9m was retained last year to provide for any shortfall arising from the triennial actuarial valuations of the Group's defined benefit schemes due to be completed during 2002. These valuations have shown a satisfactory funding position and £0.6m of the provision has been released to profit. The remaining provision of £0.3m will be amortised to profit in future years.

The additional disclosures required by FRS 17 Retirement Benefits in the second year of the transitional rules are set out in Note 26. The sharp fall in equity markets in September 2002, together with the lower bond yield applied in valuing the liabilities, has led to an increase in the deficit in the Principal Schemes to £5.0m at 30 September 2002. Had the Group opted to account for pensions in accordance with FRS 17, the charge to operating profit would have remained unchanged at £0.3m; however £3.2m would have been charged in the

Statement of Total Recognised Gains and Losses, essentially representing the movement in the value of the pension schemes during 2002.

TREASURY RISK MANAGEMENT

The Group maintains a small treasury function which operates under Board guidelines covering management of exchange exposure and interest rate risk. All transactions entered into by the treasury function are required to be in support of, or as a consequence of, underlying commercial transactions.

The Group regularly reviews its foreign exchange exposure in respect of net assets held in currencies other than sterling. At 30 September 2002, its non-sterling net assets of overseas businesses were £14.6m (2001 : £13.9m), principally held in the United States. At the present time the Group has decided not to hedge its exposure back into sterling.

Approximately 40% of the Group's turnover and operating profit relates to business operations in the United States and Germany. There has been a negative impact in the year of £0.7m and £0.1m respectively on turnover and operating profits earned overseas from movements in exchange rates.

In addition to the overseas businesses, the Group's UK businesses are also exposed to fluctuations in exchange rates as a significant amount of their stock purchases are denominated in foreign currencies.

The Group manages its exposure to these exchange rate fluctuations through the use of forward foreign exchange contracts.

The Group continues to manage the net cash position in a manner designed to maximise interest income, while at the same time minimising any risk to these funds. Surplus cash funds are deposited with commercial banks for periods of between one and six months. At 30 September 2002, the Group had net funds of £26.9m (2001 : £31.7m) of which £25.8m (2001 : £28.4m) were held on deposit.

BOARD OF DIRECTORS

AJC THOMAS (71)*†‡

Chairman

Joined the Board in 1969.

Became Non-executive on 5 June 2001, after more than 30 years as Chairman and Chief Executive of the Company.

BM THOMPSON (47)

Chief Executive Officer

Joined the Board in 1994 and appointed Chief Executive Officer in 1996. He was

previously Director of Arthur D Little Inc's Technology Management Practice in the United States.

LORD STEWARTBY (67)*†‡

Non-executive

Joined the Board in 1990. He previously held a number of Ministerial appointments in HM Government including Economic Secretary to HM Treasury. He is Deputy Chairman of Standard Chartered PLC and Chairman of The Throgmorton Trust plc.

NP LINGWOOD ACA (43)

Group Finance Director and Company Secretary

Joined the Company in June 2001 and appointed Group Finance Director on 3 July 2001. He was previously Group Financial Controller of Uniq plc.

I HENDERSON (46)

Joined the Board as a Director in 1998. He was previously a Director of Glenchewton plc and of ANC Holdings Limited.

W REID (65)*†‡

Non-executive

Joined the Board in 1994. He is Chairman of Jacques Vert PLC. He was previously a Director of various businesses within J Mowlem & Co plc and RTZ Corporation PLC.

JL RENNOCKS (57)†‡

Non-executive

Joined the Board in July 2002.

He is Chairman of KS Biomedix plc and a Director of Foreign & Colonial Investment Trust Plc. He has previously been Executive Director – Finance at Corus Group Plc and Finance Director of PowerGen Plc and Smith & Nephew plc.

*Member of the Remuneration Committee

†Member of the Audit Committee

‡Member of the Nomination Committee

ADVISORS

Investment Bankers

Lazard

21 Moorfields

London EC2P 2HT

Corporate Stockbrokers

Evolution Beeson Gregory

The Registry

Royal Mint Court

London EC3N 4LB

Auditors

PricewaterhouseCoopers

1 Embankment Place

London WC2N 6RH

Solicitors

Ashurst Morris Crisp

Broadwalk House

5 Appold Street

London EC2A 2HA

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 30 September 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Group is the distribution of specialised products and services. A description of the activities of each of the subsidiaries is presented on page 2. A review of the activities of the Group during the financial year and an analysis of turnover and profit are presented in the Review of Operations and Finance Director's Review on pages 6 to 13. An indication of future developments is contained in the Chairman's Statement and Chief Executive Officer's Review on pages 3 to 5.

RESULTS AND DIVIDENDS

The profit for the financial year attributable to shareholders was £7.2m (2001: £5.4m). The Directors recommend a final dividend of 9.0p per share (2001: 8.0p), to be paid, if approved, on 21 January 2003. This, together with the interim dividend of 5.0p per share paid on 2 July 2002, amounts to 14.0p for the year (2001: 13.0p). This leaves a retained profit of £4.2m to be transferred to reserves.

ACQUISITIONS

Details of acquisitions during the year are set out in Note 22 to the financial statements.

SHARE CAPITAL

On 7 December 2001, in accordance with the authority given to the Directors' by the shareholders, the Company repurchased and cancelled 2,516,434 shares of 5 pence each, representing 10% of the Company's issued share capital, for £8.5m. The reason for the repurchase was to enhance earnings. Details of movements in share capital are set out in Note 19.

SUBSEQUENT EVENT

On 5 November 2002, the Group disposed of seven acres of land situated in Stamford and owned by a subsidiary company, for cash proceeds of £2.6m, before expenses. The net book value of this land was negligible.

SUBSTANTIAL SHAREHOLDINGS

In addition to the Directors' shareholdings set out on page 20, at the date of this report the Company has been notified by the following that they hold a disclosable beneficial interest of 3% or more in the issued ordinary share capital of the Company:

	Percentage of ordinary share capital
Morley Fund Management Limited	11.32
UBS Global Asset Management (UK) Limited	5.74
M&G Investment Management Limited	5.28
Herald Investment Management Limited	4.75
Unicorn Asset Management Limited	4.61
Friends Ivory & Sime plc	3.90
Legal and General Investment Management Limited	3.77

As far as the Directors are aware there were no other notifiable interests.

EMPLOYEES

The Group is committed to a policy of equal opportunities in employment by which the Group has and continues to:

- select, recruit, develop and promote the very best people, basing its judgement solely on suitability for the job;

DIRECTORS' REPORT

- ensure that all applicants and employees receive fair and equal treatment irrespective of sex, marital status, nationality, colour, race, ethnicity, national origin or disability;
- encourage diversity in its workforce reflecting, where practical, the diversity of the working population;
- maintain a working environment free from sexual and racial harassment or intimidation;
- ensure that all employment conditions and job requirements reflect its commitment to equal opportunities.

Where people become disabled during the course of their employment, every practical effort is made to retain their services and to provide retraining if necessary. All employees are eligible for appropriate training, career development and promotion, and disabled people are not treated any differently in this respect.

DIRECTORS

The persons currently serving as Directors of the Company are shown on page 14. On 11 July 2002 JL Rennocks was appointed as an independent Non-executive Director of the Company. AJC Thomas and BM Thompson retire from the Board by rotation at the Annual General Meeting on 8 January 2003 and being eligible, offer themselves for re-election. JL Rennocks having been appointed since the last Annual General Meeting and being eligible, offers himself for re-election. Directors' beneficial interests in the Company's ordinary share capital at 30 September 2002 are set out in the Remuneration Report.

CHARITABLE AND POLITICAL DONATIONS

The UK companies of the Group made donations for charitable purposes during the year which amounted to £3,000. No political donations were made.

PAYMENT POLICY

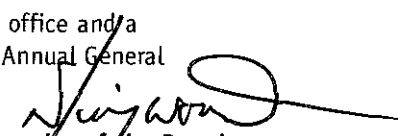
The Group does not have a formal code that it follows with regard to payments to suppliers. Members of the Group agree payment terms with its suppliers when it enters into binding purchasing contracts for the supply of goods and services. Suppliers are, in that way, made aware of these terms. Group companies seek to abide by these payment terms when they are satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. At 30 September 2002 the amount of trade creditors shown in the Group balance sheet represents 45 days of average purchases.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 11.00 am on 8 January 2003 in the Members' Room, Chartered Accountants' Hall, Moorgate Place, London EC2P 2BJ. The Notice of Meeting, which is included on page 43, includes a Special Resolution which would renew the Directors' authority to make market purchases of its own shares until the conclusion of the Company's Annual General Meeting in 2004. The Directors will only employ this authority so long as any such purchase of the Company's shares is earnings enhancing.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and a resolution for their reappointment as auditors of Diploma PLC will be proposed at the Annual General Meeting in accordance with the provisions of Section 385 of the Companies Act 1985.


By order of the Board
NP Lingwood
Company Secretary

18 November 2002

CORPORATE GOVERNANCE

COMPLIANCE STATEMENT

The Board recognises the importance of high standards of corporate governance and supports the Principles of Good Governance contained in the Combined Code published in June 1998 ("the Code") and appended to the Listing Rules of the Financial Services Authority. The Board confirms that the Company complies with the requirements of Section 1 of the Code and has done so throughout the year.

The manner in which the Group applies the principles of good corporate governance, as defined by the Code, is described below.

DIRECTORS

The Board comprises four Non-executive Directors, including the Chairman, and three Executive Directors, providing a wide range of skills and experience. The roles of the Chairman, who is Non-executive, and the Chief Executive Officer are separate and clearly defined, and the Board considers the majority of its Non-executives to be independent. The biographical details of the Board members are set out on page 14. All Directors must stand for election at the first Annual General Meeting after they are appointed. The Articles provide that all Directors will stand for re-election at least every three years. The senior independent Non-executive Director is Lord Stewartby.

The Executive Directors have service contracts which are subject to 12 months' notice of termination by the Company or the Executive Director.

The Board meets regularly to review financial performance and strategy and has a formal schedule of matters specifically reserved to it for decision. The main Board papers comprising an agenda and formal Board reports together with briefing papers on specific matters are sent to the Directors in advance of each meeting. All members of the Board have access to the advice and services of the Company Secretary and may take independent professional advice as required at the expense of the Company. There are a number of Standing Committees of the Board to which various matters are delegated. Membership of the Committees is set out on page 14. The Committees all have terms of reference, brief details of which are set out below.

Nomination Committee

The Board as a whole is responsible for the appointment of its own members, and for nominating them for election by shareholders on first appointment and thereafter for re-election at three yearly intervals. A Nomination Committee comprising the Non-executive Directors under the chairmanship of AJC Thomas is responsible for recommending new members to the Board for appointment.

Remuneration Committee

The Remuneration Report on pages 19 and 20 details the constitution and role of the Remuneration Committee, and how the principles of the Code relating to Directors' remuneration have been applied. The Committee is chaired by AJC Thomas.

Audit Committee

The Audit Committee has a formal written constitution and comprises the four Non-executive Directors. It is chaired by Lord Stewartby. The Committee receives reports from management, and from the external auditors on the external audit, on a regular basis and reviews the financial controls of the Group and the scope of, and matters arising out of, the audit. It considers annually whether the Group should set up an internal audit function. It also keeps under review the nature and extent of non-audit services provided to the Group by the external auditors.

DIRECTORS' REMUNERATION

Details of Directors' Remuneration are set out in the Remuneration Report on pages 19 and 20. This Report sets out compliance with the Code's requirements with regard to remuneration matters.

RELATIONS WITH SHAREHOLDERS

The Company maintains regular contact with major shareholders to communicate clearly the Group's

CORPORATE GOVERNANCE

objectives and monitors movements in significant shareholdings. Notice of the Annual General Meeting is sent to shareholders at least twenty working days prior to the Meeting. In the absence of a poll being called, Proxy votes cast will be declared after each resolution has been dealt with on a show of hands. The Chief Executive Officer and Company Secretary generally deal with questions from individual shareholders. All shareholders have the opportunity to put questions at the Company's Annual General Meeting when the Chairman and Chief Executive Officer give a statement on the Company's performance during the year, together with a statement on current trading conditions. The Chairman of the Board and of the Remuneration and Audit Committees will normally be available to answer questions at the meeting.

ACCOUNTING, INTERNAL CONTROL AND AUDIT

The respective responsibilities of the Directors and auditors in connection with the financial statements are explained on page 21. The Directors' statement on going concern is set out below.

The Directors are responsible for the Group's system of internal control and for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Code refers to internal controls in the widest sense, including operational and compliance controls and risk management as well as internal financial controls.

During the year the Board has carried out a further risk assessment process on the key financial, operational and compliance risks to identify, evaluate and manage significant risks to the Group's business. The assessments have been effected at both Group and individual company level. They included common definitions of risk and ensure, as far as practicable, that the policies and procedures established by the Board are appropriate to manage the perceived risks to the Group. During the year, the risk assessment process revealed no significant risks of which the Board was not previously aware. Each operating unit is required to prepare an annual self assessment report of internal control and these are reviewed by the Board.

The day to day running of the Group's business is delegated to the Executive Directors of the Company. The Executive Directors visit each operating unit on a regular basis and meet with both operational and finance management and staff.

Key financial and operational measures are reported on a weekly and/or monthly basis and are measured against both budget and interim forecasts which have been approved and reviewed by the Board. The Board has established a clear organisational structure with defined authority levels.

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. As with all such systems, internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Throughout the year, the Group has been in full compliance with the Combined Code provisions on internal control.

The Board keeps under review the need for internal audit in the Group. The Board's current view is that a separate function is not required given that the Group's financial control resource carries out those internal audit functions which are considered appropriate for a Group of the size and nature of Diploma PLC.

GOING CONCERN

The Directors have reviewed the Group's budget for 2002/03 and are satisfied that it is appropriate to prepare the financial statements on the going concern basis.

REMUNERATION REPORT

CONSTITUTION

The Remuneration Committee of Diploma PLC is constituted in accordance with the Combined Code. The Remuneration Committee, chaired by AJC Thomas, includes two other independent Non-executive Directors and meets as appropriate during the year. Except when matters concerning his own position are being considered, the Chief Executive Officer is normally invited to attend the meetings to assist the Committee, as set out in the Combined Code. Any matter affecting the Chairman is discussed by the Remuneration Committee without the Chairman present.

POLICY

The Committee has given full consideration to the provisions of Schedule A of the Combined Code and the following:

- the importance of recruitment, motivation and retention of high quality management;
- the culture of linking reward to overall corporate and individual employees' performance.

The policy of the Remuneration Committee is to pay competitive market salaries and associated benefits, having regard to the Director's experience, the size and complexity of the job, and any other relevant factors (such as special expertise or market requirements necessary to acquire a new recruit) in order to attract, retain and motivate executives and to link individual rewards to the long term success of the Group.

The Remuneration Committee monitors practices in other companies to ensure that it remains in touch with current best practice in the market.

DIRECTORS' REMUNERATION

The total remuneration of the Directors of the Company for the year ended 30 September 2002 was:

	2002 £000	2001 £000
Salary	600	570
Bonus	75	85
Long Term Incentive Scheme	-	30
Ex-gratia payment	-	50
Other benefits	68	68
Non-executive Directors' fees	49	43
	792	846
Pension costs	73	113
	865	959

Subject to an overriding discretion by the Remuneration Committee after taking an overall view of the Company's performance, annual bonuses may be earned by Executive Directors based on the achievement of pre-agreed targets for profit before tax in the year, and the Remuneration Committee's assessment of strategic and personal performance. The Remuneration Committee has authority to grant an individual a discretionary bonus if it considers the circumstances justify such action. Performance bonuses are pensionable.

The base salaries of Executive Directors are reviewed annually, having regard to personal performance, Group performance and the competitive market practice.

Non-executive Directors receive fees as set out below. Fees are set by the Board as a whole and were last reviewed in November 2002. The Chairman who is a Non-executive Director received a salary of £80,000 per annum for his services during the year ended 30 September 2002. Since 1 October 2002, the Chairman's remuneration is at the rate of £70,000 per annum.

REMUNERATION REPORT

The fee or salary, bonus and other benefits for each of the Directors during the year were:

	Salary & Fees £000	Long Term Incentive Scheme £000	Perfor- mance Bonus £000	Other Benefits £000	Total £000	Prior Year Total £000
I Henderson	140	-	15	11	166	185
NP Lingwood	145	-	15	13	173	54
W Reid	23	-	-	-	23	23
JL Rennocks*	6	-	-	-	6	-
Lord Stewartby	20	-	-	9	29	29
AJC Thomas	80	-	-	18	98	124
BM Thompson	235	-	45	17	297	314
AMR Parkinson	-	-	-	-	-	117
	649	-	75	68	792	846

* JL Rennocks was appointed to the Board on 11 July 2002.

PENSIONS

The Executive Directors receive pension contributions from the Group which are paid into money-purchase schemes. No Directors are members of the Groups' defined benefit schemes. The pension contributions paid into the schemes on behalf of the Directors are as follows:

	2002 £000	2001 £000
BM Thompson	36	36
I Henderson	19	17
NP Lingwood	18	6
AMR Parkinson	-	54
	73	113

LONG TERM INCENTIVE SCHEMES

Long Term Incentive Schemes ("LTISs") are provided to Executive Directors. BM Thompson and I Henderson were offered a LTIS on 24 January 2001 and 26 February 2001 respectively whereby they will each receive a bonus related to growth in earnings per share over the three years ending 30 September 2003, share price enhancement from 1 October 2000 to 30 September 2003 and personal performance. The award assessment date is 30 September 2003. NP Lingwood was offered a LTIS on 28 January 2002 whereby he will receive a bonus related to growth in earnings per share over the three years ending 30 September 2004, share price enhancement from 1 October 2001 to 30 September 2004 and personal performance. The award assessment date is 30 September 2004. A maximum amount of £500,000 is payable to BM Thompson and £250,000 each to I Henderson and NP Lingwood.

DIRECTORS' SHAREHOLDINGS

	Ordinary shares of 5p each	
	30 September 2002	1 October 2001
I Henderson	17,842	17,842
NP Lingwood	5,000	2,500
W Reid	-	-
JL Rennocks	-	-
Lord Stewartby	25,000	25,000
AJC Thomas	530,813	530,813
BM Thompson	100,000	75,000

None of the Directors hold any shares non-beneficially. There were no changes to the Directors' shareholdings between 30 September 2002 and 18 November 2002.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements (on pages 22 to 42), the Company has used appropriate accounting policies, consistently applied, and supported by reasonable and prudent judgements and estimates, and that all financial reporting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF DIPLOMA PLC

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report. As described above, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, UK Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the Corporate Governance statement on pages 17 and 18 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

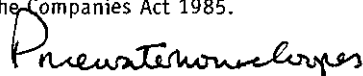
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 September 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors, London



18 November 2002

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 30 September 2002

	Note	30 September 2002			30 September 2001		
		Before goodwill and exceptional items £m	Goodwill and exceptional items (note 6) £m	Total £m	Before goodwill and exceptional items £m	Goodwill and exceptional items (note 6) £m	Total £m
Turnover	1						
Continuing operations		71.7		71.7	66.3		66.3
Acquisitions		2.0		2.0	-		-
		73.7		73.7	66.3		66.3
Discontinued operations		1.9		1.9	20.6		20.6
		75.6		75.6	86.9		86.9
Operating profit	1,3						
Continuing operations		8.2	(0.5)	7.7	8.8	(0.1)	8.7
Acquisitions		0.7	(0.1)	0.6	-	-	-
		8.9	(0.6)	8.3	8.8	(0.1)	8.7
Discontinued operations		-	-	-	0.9	-	0.9
		8.9	(0.6)	8.3	9.7	(0.1)	9.6
Non-Operating items	6						
Continuing operations -							
Profit on disposal of fixed assets		-	1.1	1.1	-	0.1	0.1
Discontinued operations -							
Loss on closure of business		-	(0.6)	(0.6)	-	-	-
Profit/(loss) on sale of businesses		-	0.3	0.3	-	(2.2)	(2.2)
		8.9	0.2	9.1	9.7	(2.2)	7.5
Interest income		1.0	-	1.0	1.2	-	1.2
Profit/(loss) on ordinary activities before tax		9.9	0.2	10.1	10.9	(2.2)	8.7
Taxation	7	(3.0)	0.2	(2.8)	(3.2)	-	(3.2)
Profit/(loss) on ordinary activities after tax		6.9	0.4	7.3	7.7	(2.2)	5.5
Minority interests	21			(0.1)			(0.1)
Profit for the financial year				7.2			5.4
Dividends	8			(3.0)			(3.3)
Retained profit for the year	20			4.2			2.1
Earnings per 5p share	9						
On basic and diluted earnings				31.2p			21.5p
On adjusted earnings				29.4p			30.2p

The notes on pages 26 to 42 form part of these accounts.

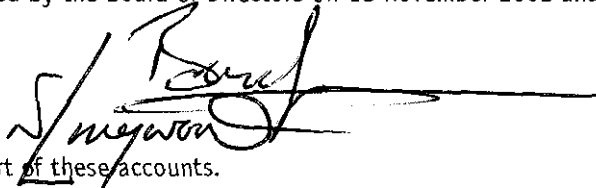
BALANCE SHEETS

as at 30 September 2002

	Note	Group		Company	
		2002 £m	2001 £m	2002 £m	2001 £m
Fixed assets					
Intangible assets: Goodwill	10	4.8	2.0	-	-
Tangible assets	11	9.8	12.0	-	-
Investments	12	-	-	51.6	51.6
		14.6	14.0	51.6	51.6
Current assets					
Stocks	13	14.8	14.3	-	-
Debtors	14	12.2	13.5	-	-
Cash and bank deposits	15	27.7	31.7	-	-
		54.7	59.5	-	-
Creditors: Amounts falling due within one year	16	(17.3)	(16.2)	(45.9)	(47.4)
Net current assets/(liabilities)		37.4	43.3	(45.9)	(47.4)
Total assets less current liabilities		52.0	57.3	5.7	4.2
Provisions for liabilities and charges	17	(0.6)	(1.3)	-	-
		51.4	56.0	5.7	4.2
Capital and reserves					
Called up equity share capital	19	1.1	1.3	1.1	1.3
Capital redemption reserve	20	0.2	-	0.2	-
Profit and loss account	20	49.6	54.3	4.4	2.9
Shareholders' funds		50.9	55.6	5.7	4.2
Equity minority interests	21	0.5	0.4	-	-
		51.4	56.0	5.7	4.2

The financial statements were approved by the Board of Directors on 18 November 2002 and signed on its behalf by:

BM Thompson Chief Executive
NP Lingwood Finance Director



The notes on pages 26 to 42 form part of these accounts.

GROUP CASH FLOW STATEMENT

for the year ended 30 September 2002

	Note	2002 £m	2002 £m	2001 £m	2001 £m
Net cash inflow from operating activities	23		9.9		9.4
Returns on investments and servicing of finance					
Interest received		1.0		1.2	
Equity dividends paid to minority interests		-		(0.1)	
			1.0		1.1
Taxation					
UK corporation tax paid		(2.1)		(2.1)	
Overseas tax paid		(0.8)		(0.6)	
			(2.9)		(2.7)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(1.3)		(1.7)	
Proceeds from the sale of tangible fixed assets		3.0		0.8	
			1.7		(0.9)
Acquisitions and disposals					
Acquisition of businesses	22	(2.2)		(4.1)	
Proceeds from disposal of businesses	22	-		12.9	
			(2.2)		8.8
Equity dividends paid			(3.0)		(3.0)
Cash inflow before use of liquid resources and financing			4.5		12.7
Management of liquid resources					
Decrease/(increase) in short term deposits			2.6		(28.4)
Financing					
Return of capital			(8.5)		-
Decrease in cash in the year	24		(1.4)		(15.7)

The notes on pages 26 to 42 form part of these accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 30 September 2002

	2002	2001
	£m	£m
Profit for the financial year	7.2	5.4
Currency translation adjustment on foreign currency net investments	(0.7)	0.3
Tax credit/(charge) on foreign exchange adjustment	0.3	(0.1)
Total recognised gains and losses for the year	6.8	5.6

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 30 September 2002

	2002	2001
	£m	£m
Profit for the financial year	7.2	5.4
Dividends	(3.0)	(3.3)
Retained profit for the year	4.2	2.1
Currency translation adjustments on foreign currency net investments, net of tax	(0.4)	0.2
Return of capital	(8.5)	-
Net (reduction)/increase in shareholders' funds	(4.7)	2.3
Shareholders' funds at beginning of year	55.6	53.3
Shareholders' funds at end of year	50.9	55.6

The notes on pages 26 to 42 form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

1 ANALYSIS OF RESULTS

	Turnover		Operating profit before goodwill amortisation, exceptional items and taxation		Profit/(loss) before interest and taxation	
	2002	2001	2002	2001	2002	2001
	£m	£m	£m	£m	£m	£m
By Business Segment						
Specialised Distribution	73.7	66.3	8.9	8.8	9.4	8.8
Discontinued operations	1.9	20.6	-	0.9	(0.3)	(1.3)
	75.6	86.9	8.9	9.7	9.1	7.5

By Geographic Area

United Kingdom	39.9	39.6	5.5	5.1	6.6	5.1
Rest of Europe	7.6	7.3	0.9	1.5	0.9	1.5
United States of America	26.2	19.4	2.5	2.2	1.9	2.2
Specialised Distribution	73.7	66.3	8.9	8.8	9.4	8.8
Discontinued operations	1.9	20.6	-	0.9	(0.3)	(1.3)
	75.6	86.9	8.9	9.7	9.1	7.5

Turnover by geographical area is stated by origin which, with the exception of the USA, is not materially different from turnover by destination. In the USA, turnover of £3.7m (out of £26.2m) is to customers based outside Europe and North America.

The Specialised Distribution business segment includes the expenses of the Group head office; in 2001 these were shown in a separate business segment, together with the results of Williamson Cliff. In 2002 the results of Williamson Cliff are included as discontinued operations; in 2001 discontinued operations also included Special Steels. The comparative results have been restated accordingly.

Included in Specialised Distribution is turnover and operating profit before goodwill amortisation and exceptional items of £2.0m and £0.7m, respectively, which relates to acquisitions completed during the financial year; after goodwill amortisation, profit before interest and taxation relating to acquisitions is £0.6m.

2 ANALYSIS OF NET ASSETS

By Business Segment	2002			2001		
	Europe £m	USA £m	Total £m	Europe £m	USA £m	Total £m
Specialised Distribution	12.8	10.7	23.5	11.9	10.9	22.8
Discontinued operations	1.0	-	1.0	1.4	0.1	1.5
Trading Capital Employed	13.8	10.7	24.5	13.3	11.0	24.3
Net cash	26.1	0.8	26.9	30.7	1.0	31.7
	39.9	11.5	51.4	44.0	12.0	56.0

The trading capital employed in Europe includes £3.1m (2001: £1.9m) relating to Continental Europe.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

3 OPERATING PROFIT

	Continuing operations 2002 £m	Discontinued operations 2002 £m	Total 2002 £m	2001 £m
The Group's results are analysed as follows:				
Sales	73.7	1.9	75.6	86.9
Cost of sales	(50.1)	(1.8)	(51.9)	(60.1)
Gross profit	23.6	0.1	23.7	26.8
Other operating income	0.2	-	0.2	0.2
Distribution costs	(3.7)	-	(3.7)	(3.7)
Administration expenses	(11.8)	(0.1)	(11.9)	(13.7)
Operating profit	8.3	-	8.3	9.6

Continuing operations includes turnover of £2.0m, cost of sales of £1.0m and administrative costs of £0.4m relating to acquisitions completed during the year.

Goodwill amortisation of £0.3m (2001: £0.1m) has been included in administration expenses. Exceptional costs of £0.6m (2001: £nil) offset by exceptional income of £0.3m (2001: £nil), have been included in administration expenses.

The Group's results include charges/(credits) for:

	2002 £m	2001 £m
Depreciation of tangible fixed assets – annual charge	1.3	1.5
– exceptional write-down	-	0.6
Goodwill amortisation	0.3	0.1
Income from property rentals, net	(0.2)	(0.2)
Expenses of Group head office*	1.5	1.8
Directors' Long Term Incentive Schemes	-	0.2

Auditors' remuneration

– Group audit fees	0.1	0.1
– Group taxation fees paid to PricewaterhouseCoopers	0.1	0.2

Group audit fees include £2,000 (2001: £2,000) in respect of audit fees for the Company.

* Excluding Directors' Long Term Incentive Schemes.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

4 GROUP STAFF COSTS

Group staff costs, including Directors' emoluments:

	2002 £m	2001 £m
Wages and salaries	13.5	15.1
Social security costs	1.3	1.4
Other pension costs	0.5	0.6
	15.3	17.1

The average number of employees, including Executive Directors, during the year were:

	2002 Number	2001 Number
Specialised Distribution	498	387
Discontinued operations	54	250
Number of employees – average	552	637
Number of employees – year end	487	562

5 DIRECTORS' REMUNERATION

Directors' emoluments and interests are given in the Remuneration Report on pages 19 and 20.

6 GOODWILL AND EXCEPTIONAL ITEMS

	Goodwill amortisation 2002 £m	Exceptional items 2002 £m	Total 2002 £m	Goodwill amortisation 2001 £m	Exceptional items 2001 £m	Total 2001 £m
Operating profit						
Continuing operations ^(a)	(0.3)	(0.3)	(0.6)	(0.1)	–	(0.1)
Non operating items						
Profit on sale of fixed assets	–	1.1	1.1	–	0.1	0.1
Loss on closure of business ^(b)	–	(0.6)	(0.6)	–	–	–
Profit/(loss) on sale of businesses ^(c)	–	0.3	0.3	–	(2.2)	(2.2)
	(0.3)	0.5	0.2	(0.1)	(2.1)	(2.2)
Tax credit on exceptional items	–	0.2	0.2	–	–	–
	(0.3)	0.7	0.4	(0.1)	(2.1)	(2.2)

- (a) Costs of £0.6m have been incurred in completing a restructuring of the Group's US operations, of which £0.4m will be paid in 2002/2003. In addition a provision of £0.3m retained in respect of certain liabilities relating to a defined benefit pension scheme has been released to profit.
- (b) A loss of £0.6m was incurred on closing the business of Williamson Cliff, which was announced on 28 February 2002.
- (c) The profit on sale of businesses comprises £0.3m of proceeds received on closure of a pension scheme relating to a divested company. The loss on sale of businesses last year relates to the disposal of Henry Whitham & Son Limited and Carbon & Alloy Inc and the disposal of the businesses carried on by AG Alloys Limited and Abacon Telecommunications Inc.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

7 TAXATION

(a) Analysis of taxation charge in year:

	2002 £m	2001 £m
Charge on profit on ordinary activities		
UK corporation tax at 30% (2001: 30%)	2.4	2.6
Less: double taxation relief	(0.5)	(0.1)
	1.9	2.5
Overseas tax	0.9	0.7
Taxation charge	2.8	3.2
Classified as:		
Trading activities	3.0	3.2
Exceptional items, credit	(0.2)	-
	2.8	3.2

(b) Factors affecting the tax charge for the year:

The tax charge on profit before tax is reconciled to the expected charge based on the standard corporation tax in the UK as follows:

	2002 £m	2001 £m
Expected tax charge at 30%	3.0	2.6
Exceptional items relating to capital items	(0.3)	0.7
Goodwill amortisation in UK	0.1	-
Differences in overseas taxation rates	0.1	0.1
Tax relief on overseas goodwill	(0.1)	(0.1)
Prior year items	-	(0.1)
	2.8	3.2

8 DIVIDENDS

	2002 pence per share	2001 pence per share	2002 £m	2001 £m
Interim paid	5.0	5.0	0.9	1.3
Final proposed	9.0	8.0	2.1	2.0
	14.0	13.0	3.0	3.3

9 EARNINGS PER ORDINARY 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 year of 23,116,726 (2001: 25,164,345) and the profit for the financial year, after minority interests, of £7.2m (2001: £5.4m). There were no potentially dilutive shares.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

Adjusted earnings per share

Adjusted earnings per share is shown by reference to earnings before goodwill amortisation, exceptional items and related tax. The Directors consider that this gives a clearer indication of the underlying performance of the Group. Earnings before goodwill amortisation, exceptional items and related tax are calculated as follows:

	2002 pence per share	2001 pence per share	2002 £m	2001 £m
Profit for the financial year, after minority interests	31.2	21.5	7.2	5.4
Goodwill amortisation	1.3	0.4	0.3	0.1
Exceptional items, net of tax	(3.1)	8.3	(0.7)	2.1
Adjusted earnings	29.4	30.2	6.8	7.6

10 INTANGIBLE ASSETS: GOODWILL

	2002 £m
Cost	
At 1 October 2001	2.2
Goodwill arising on acquisitions during the year	3.1
At 30 September 2002	5.3
Amortisation	
At 1 October 2001	0.2
Amortisation charge for the year	0.3
At 30 September 2002	0.5
Net Book Value	
At 30 September 2002	4.8
At 1 October 2001	2.0

In accordance with the accounting policy for goodwill, described on page 40, goodwill arising on acquisitions since 1 April 1998 has been capitalised. Goodwill arising on businesses acquired prior to 1 April 1998 amounting to £20.3m (2001: £20.3m) has been written off to reserves in prior years.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

11 TANGIBLE ASSETS

Group	Freehold	Plant and	Fixtures, fittings, vehicles &	Total
	properties	machinery	equipment	
	£m	£m	£m	£m
Cost				
At 1 October 2001	12.0	3.7	6.5	22.2
Foreign exchange adjustments	(0.1)	(0.1)	(0.1)	(0.3)
Additions	–	0.3	1.0	1.3
Disposals	(1.8)	(0.5)	(0.7)	(3.0)
At 30 September 2002	10.1	3.4	6.7	20.2
Depreciation				
At 1 October 2001	3.0	3.2	4.0	10.2
Charged in year	0.2	0.2	0.9	1.3
Disposals	(0.1)	(0.3)	(0.7)	(1.1)
At 30 September 2002	3.1	3.1	4.2	10.4
Net Book Value				
At 30 September 2002	7.0	0.3	2.5	9.8
At 1 October 2001	9.0	0.5	2.5	12.0

Land included above but not depreciated is £2.0m (2001: £2.7m). The net book value of freehold property includes £0.9m (2001: £2.8m) of properties relating to divested companies. Capital commitments contracted, but not provided were £0.4m (2001: £0.4m).

12 INVESTMENTS

	Company
	£m
Shares in Group undertakings	
At 1 October 2001	51.6
At 30 September 2002	51.6

Details of the principal subsidiaries are set out on page 42.

13 STOCKS

	Group	
	2002	2001
	£m	£m
Raw materials and consumables	6.1	5.5
Finished goods and goods held for resale	8.7	8.8
	14.8	14.3

14 DEBTORS

	Group		Company	
	2002	2001	2002	2001
	£m	£m	£m	£m
Trade debtors	11.1	12.2	–	–
Other debtors	0.5	0.5	–	–
Prepayments and accrued income	0.6	0.8	–	–
	12.2	13.5	–	–

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

15 CASH AND BANK DEPOSITS

	Group	
	2002	2001
	£m	£m
Cash at bank	1.9	3.3
Short term deposits	25.8	28.4
	27.7	31.7

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2002	2001	2002	2001
	£m	£m	£m	£m
Unsecured Loan Notes	0.8	-	-	-
Trade creditors	5.9	5.7	-	-
Amounts owed to Group companies	-	-	43.9	45.4
Corporation tax	2.5	2.7	-	-
Other creditors	1.4	2.0	-	-
Other taxes and social security	0.8	0.9	-	-
Proposed dividend	2.0	2.0	2.0	2.0
Accruals and deferred income	3.9	2.9	-	-
	17.3	16.2	45.9	47.4

During the year, £3.0m Guaranteed Unsecured Loan Notes 2001 - 2003 ("Notes") were issued as consideration for the acquisition of Clarendon Engineering Supplies Limited. In September 2002 £2.2m of these Notes were redeemed by the Noteholder. The Notes bear interest at 0.95% below LIBOR. The Notes are redeemable at par at the discretion of the Noteholder. Any Notes outstanding on 31 December 2003 will be repaid by the Company.

17 PROVISIONS FOR LIABILITIES AND CHARGES

	Group	
	2002	2001
	£m	£m
Deferred taxation	-	-
Provisions	0.6	1.3
	0.6	1.3

Deferred tax includes a liability of £0.2m which relates to capital allowances on fixed assets in excess of depreciation and an asset of £0.2m relating to other timing differences. No provision for deferred taxation has been made for taxation payable on the distribution of reserves by overseas subsidiary undertakings.

Provisions includes £0.3m (2001: £0.9m) in respect of a pension provision held against a defined benefit pension scheme. During the year £0.6m was released to profit as exceptional items as described in note 6, with the remaining £0.3m to be amortised to profit over the average service life of the employees.

Provisions also includes £0.3m (2001: £0.4m) in respect of an onerous property lease. During the year, £57,000 was utilised and the balance is expected to be utilised over a period of six years.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

18 FINANCIAL INSTRUMENTS

Policy

A discussion of the Group's objectives and policies with regard to financial instruments is set out in the Finance Director's Review on page 13. Short term debtors and creditors have been excluded from the following disclosures, other than the foreign currency disclosures.

Interest rate and currency profile

At the year end, and throughout the year, the Group has maintained cash funds comprising of cash at bank and short term deposits. The Group has no term borrowing facilities, but maintains 'on demand' bank overdrafts.

	Sterling £m	US\$ £m	Euro £m	2002 Total £m	Sterling £m	US\$ £m	Euro £m	2001 Total £m
Cash at bank	0.8	0.3	0.8	1.9	1.5	1.0	0.8	3.3
Short term deposits	23.8	0.5	1.5	25.8	27.6	–	0.8	28.4
	24.6	0.8	2.3	27.7	29.1	1.0	1.6	31.7
Unsecured Loan Notes	(0.8)	–	–	(0.8)	–	–	–	–
	23.8	0.8	2.3	26.9	29.1	1.0	1.6	31.7

The short term deposits, cash at bank and Unsecured Loan Notes are all interest bearing at rates linked to LIBOR.

Net foreign currency monetary assets/(liabilities) at 30 September 2002 and 2001

After taking account of short term debtors and creditors, at 30 September 2002 the Group had foreign currency monetary assets comprising outstanding forward foreign exchange contracts in aggregate of £4.5m (2001: £nil), of which £3.1m related to Euros, £0.7m to US\$ and £0.7m to Yen.

Fair values of financial instruments

At 30 September 2002 and 2001 there was no material difference between the book value and the fair value of the Group's financial assets and liabilities.

19 SHARE CAPITAL

	2002 Number	2001 Number	2002 £m	2001 £m
Authorised				
Ordinary shares of 5p each	35,000,000	35,000,000	1.7	1.7
Allotted, issued and fully paid				
Equity – Ordinary shares of 5p each	22,647,911	25,164,345	1.1	1.3

On 7 December 2001, the Company repurchased and cancelled 2,516,434 Ordinary shares of 5 pence each, representing 10% of the Company's issued share capital.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

20 RESERVES

	Capital redemption reserve £m	Profit and loss account £m	Total £m
Group			
At 1 October 2001	–	54.3	54.3
Retained profit for the year	–	4.2	4.2
Repurchase and cancellation of ordinary shares	–	(8.3)	(8.3)
Transfer to capital redemption reserve	0.2	(0.2)	–
Exchange loss, net of tax	–	(0.4)	(0.4)
At 30 September 2002	0.2	49.6	49.8
Company			
At 1 October 2001	–	2.9	2.9
Retained profit for the year	–	10.0	10.0
Repurchase and cancellation of ordinary shares	–	(8.3)	(8.3)
Transfer to capital redemption reserve	0.2	(0.2)	–
At 30 September 2002	0.2	4.4	4.6

On 7 December 2001, the Company repurchased and cancelled 2,516,434 Ordinary shares of 5 pence each. The shares were purchased out of distributable profits for £8.5m, including expenses. An amount equal to the nominal value of the shares purchased has been transferred to a capital redemption reserve.

At 30 September 2002, goodwill written off directly against profit and loss account reserves amounted to £20.3m (2001: £20.3m).

21 MINORITY INTERESTS

	Group £m
At 1 October 2001	0.4
Dividends	–
Share of profit for the year	0.1
At 30 September 2002	0.5

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

22 BUSINESS ACQUISITIONS AND DISPOSALS

On 20 December 2001, the Group acquired the whole of the share capital of Clarendon Engineering Supplies Limited ("Clarendon") for £3.3m, net of cash acquired of £0.2m. On 1 April 2002, the Group acquired the trade and certain assets and liabilities of Dowatronic-Kabelsysteme GmbH ("Dowatronic") for £0.2m.

Cash flows in respect of acquisitions and disposals comprise:

	Acquisitions		Disposals	
	2002 £m	2001 £m	2002 £m	2001 £m
Tangible fixed assets	-	0.1	-	(3.4)
Stocks	0.3	1.6	-	(10.9)
Debtors	0.2	1.6	-	(5.8)
Creditors	(0.1)	(0.5)	-	3.7
Taxation	-	-	-	0.4
Minority's share of net assets in subsidiaries	-	0.8	-	0.7
Net assets acquired/(disposed)	0.4	3.6	-	(15.3)
Net loss on disposal of businesses	-	-	-	2.2
Goodwill arising on acquisitions/disposal	3.1	0.5	-	0.2
Net assets acquired/(disposed)	3.5	4.1	-	(12.9)
Cash paid/(received)	2.4	2.8	-	(12.0)
(Cash)/overdraft acquired/(sold)	(0.2)	1.3	-	(0.9)
Cash paid/(received), net of expenses	2.2	4.1	-	(12.9)
Loan Notes issued and outstanding	0.8	-	-	-
Deferred consideration	0.5	-	-	-
Total consideration paid/(received)	3.5	4.1	-	(12.9)

The fair value of assets acquired are set out above.

The book value of assets acquired in respect of Clarendon was £0.4m and fair value adjustments of £0.1m were made to reduce the carrying value of stock and debtors to bring the provisions into line with the Group's accounting policies. The book value of assets acquired in respect of Dowatronic was £0.1m. Goodwill of £3.0m arose on the acquisition of Clarendon, and £0.1m arose on the acquisition of Dowatronic.

Deferred consideration of £0.4m is payable on the acquisition of Clarendon based on the performance of the company during the year ended 30 September 2002. This will be satisfied by the issue of a further £0.4m of Loan Notes. Deferred consideration of £0.1m is payable on the acquisition of Dowatronic based on the sales performance of the business during the period ending 31 March 2004.

These transactions have been accounted for as acquisitions and consolidated in the financial statements from the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

23 RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2002	2001
	£m	£m
Operating profit	8.3	9.6
Depreciation	1.3	1.5
Amortisation of goodwill	0.3	0.1
Increase in stocks	(0.9)	(1.8)
Decrease/(increase) in debtors	1.1	(1.6)
Increase in creditors	0.8	0.7
(Decrease)/increase in provisions	(0.7)	0.9
Costs incurred on business closure/sale, net	(0.3)	-
Net cash inflow from operating activities	9.9	9.4

The net cash inflow from operating activities of £9.9m (2001: £9.4m) includes £nil (2001: £0.8m) relating to discontinued businesses.

24 RECONCILIATION OF NET CASH FLOWS TO THE MOVEMENT IN NET FUNDS

	2002	2001
	£m	£m
Decrease in cash in the year	(1.4)	(15.7)
(Decrease)/increase in short term deposits	(2.6)	28.4
Change in net funds resulting from cash flows	(4.0)	12.7
Increase in debt due within one year	(0.8)	-
Exchange adjustment	-	(0.1)
Net funds at start of year	31.7	19.1
Net funds at end of year	26.9	31.7

25 ANALYSIS OF NET FUNDS

	1 October	Cash flow	Other	Exchange	30 September
	2001	movement	non-cash	movement	2002
	£m	£m	movement	£m	£m
Cash at bank and in hand	3.3	(1.4)	-	-	1.9
Short term deposits	28.4	(2.6)	-	-	25.8
	31.7	(4.0)	-	-	27.7
Guaranteed Unsecured Loan Notes 2001-2003	-	-	(0.8)	-	(0.8)
Net funds	31.7	(4.0)	(0.8)	-	26.9

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

26 PENSION SCHEMES

The Group operates a number of pension schemes in the UK of both the defined benefit and defined contribution type. The defined benefit schemes are generally non-contributory schemes covering employees of certain subsidiaries, and the assets of these schemes are held in separate trustee administered funds. The schemes are funded in accordance with rates recommended by independent qualified actuaries on the basis of triennial or shorter period reviews using the projected unit method. All of the schemes were fully funded at the date of their last actuarial review.

The two principal defined benefit schemes operated by the Group ("the Principal Schemes") are the Diploma Holdings PLC Permanent Staff Pension and Assurance Scheme ("the PLC Scheme") and the Anachem Limited Retirement Benefits Scheme ("the Anachem Scheme").

Actuarial Valuations

The PLC Scheme is a hybrid scheme with a closed defined benefit section and a defined contribution section. The accrual of benefits on a final salary basis ceased from 5 April 2000 and the Group does not currently contribute to the defined benefit section. An actuarial valuation of the defined benefit section of the PLC Scheme was carried out as at 6 April 2000. The principal actuarial assumptions adopted were that, over the long term, the annual rate of return on investments would be 4% higher than both the annual increase in present and future pensions, and in retail inflation. The market value of the assets at the date of valuation was £6.8m. The actuarial valuation showed assets sufficient to cover 114% of the liabilities of the PLC Scheme. The next valuation will be carried out based on the position at 6 April 2003.

The Anachem Scheme was actuarially valued as at 5 April 2001 using the projected unit method. The principal actuarial assumptions adopted were that, over a long term, the annual investment return would be 3.25% greater than the increase in pensionable remuneration, 3.75% greater than both the increase in present and future pensions, and in retail inflation. The market value of the assets at the date of the valuation was £4.2m. The actuarial valuation showed assets sufficient to cover 108% of the benefits accruing to members of the Anachem Scheme. The next valuation will be carried out based on the position at 5 April 2004.

The Group's total pension charge, before exceptional items, was £0.5m (2001: £0.6m) of which £0.3m (2001: £0.3m) related to the defined benefit schemes.

FRS 17 Accounting

The aggregate fair value of the assets held by the Principal Schemes at 30 September 2002 and 2001 and the expected rate of return assumed for the next year are as follows:

	Fair value		Expected rate of return	
	2002	2001	2002	2001
	£m	£m		
Equities	4.4	4.6	8.5%	8.0%
Bonds	0.6	0.7	5.5%	6.0%
Cash	2.6	4.2	4.0%	4.0%
	7.6	9.5		

On an FRS 17 basis, the major assumptions used by the actuaries of the Principal Schemes to calculate the scheme liabilities at 30 September 2002 and 2001 were:

	2002	2001
Inflation	2.25%	2.50%
Rate of increase in pensionable pay	3.75%	4.00%
Rate of increase in pensions in payment	2.25%	2.50%
Rate used to discount scheme liabilities	5.50%	6.00%

At 30 September 2002, the present value of scheme liabilities using these assumptions was £12.6m (2001: £11.0m). The implied deficit in the Principal Schemes on an FRS 17 basis is £5.0m (2001: £1.5m).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

If the above amounts had been recognised in the financial statements, the Group's shareholders' funds and profit and loss reserve at 30 September 2002 and 2001 would have been as follows:

	Shareholders' Funds		Profit and Loss Reserve	
	2002	2001	2002	2001
	£m	£m	£m	£m
As reported – excluding pension deficit	50.9	55.6	49.6	54.3
Reverse SSAP 24 accounting provision	0.3	0.9	0.3	0.9
Pension deficit	(5.0)	(1.5)	(5.0)	(1.5)
Related deferred tax asset	1.5	0.5	1.5	0.5
Restated – including pension deficit	47.7	55.5	46.4	54.2

In respect of the Principal Schemes, the following amounts would have been recognised in the primary financial statements in the year ended 30 September 2002 under the requirements of FRS 17:

Profit and Loss Account

	2002
	£m
Operating profit:	
Current service cost	(0.3)
Other finance income/(expense):	
Expected return on pension scheme assets	0.6
Interest on pension scheme liabilities	(0.8)
	(0.2)
Net charge in profit and loss account	(0.5)

Statements of Total Recognised Gains and Losses ("STRGL")

	2002
	£m
Actual return less expected return on pension scheme assets	(1.5)
Experience gains and losses arising on the scheme liabilities	(0.6)
Change in assumptions at 30 September 2002 underlying the present value of the scheme liabilities	(1.1)
Actuarial loss recognised in the STRGL	(3.2)

The movement in the overall pension deficit, calculated in accordance with the method prescribed in FRS17, is as follows:

	£m
Deficit in the Principal Schemes at beginning of year:	(1.5)
Current service cost	(0.3)
Employer contributions	0.2
Other finance expense	(0.2)
Actuarial loss recognised in STRGL	(3.2)
Deficit in the Principal Schemes at end of year	(5.0)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2002

Set out below are details of experience gains and losses in respect of the Principal Schemes for the year ended 30 September 2002:

	£m
(a) Difference between the expected and actual return on scheme assets:	(1.5)
— <i>as a percentage of scheme assets</i>	20%
(b) Experienced gains and losses of scheme liabilities:	(0.6)
— <i>as a percentage of scheme liabilities</i>	5%
(c) Amount recognised in STRGL	(3.2)
— <i>as a percentage of scheme liabilities</i>	25%

27 SUBSEQUENT EVENT

On 5 November 2002 the Group disposed of seven acres of land situated in Stamford owned by a subsidiary company for cash proceeds of £2.6m, before expenses. The net book value of the land was negligible.

GROUP ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards, all of which, with the exception of the accounting policy on deferred taxation, have been applied consistently throughout the year and the preceding year. FRS 19 'Deferred Taxation' has been adopted with effect from 1 October 2001 and represents a change in accounting policy. However this has had no impact on profit for the current year, or the previous year, or on shareholders' funds and consequently the comparative figures have not required restatement. In addition the Directors continue to implement FRS 17 'Retirement Benefits' in accordance with the transitional arrangements set out in this Standard and the disclosure requirements are set out in note 26 of these financial statements.

CONSOLIDATION

The Group financial statements consolidate the accounts of the Company and its subsidiary undertakings, the principal of which are set out on page 42. The results of businesses acquired or sold during the year are included in the Group financial statements from the date of acquisition or to the date of disposal. A separate profit and loss account is not presented for Diploma PLC as permitted by S230 of the Companies Act 1985.

GOODWILL

On the acquisition of a subsidiary, business or associate, fair values are attributed to the net assets acquired. Where the fair value of the consideration exceeds the aggregate value of these assets, the difference is treated as goodwill. In accordance with FRS 10, goodwill arising on acquisitions since 1 April 1998 is capitalised on the Group balance sheet and amortised in equal instalments over its useful economic life. In the absence of indications to the contrary, the useful economic life is assumed to be no more than 20 years. As permitted by the transitional provisions of FRS 10, goodwill that arose on businesses acquired prior to 1 April 1998 will, to the extent not already charged against operating profit, remain written off to reserves. In the event of subsequent disposal of any of these businesses, the attributable goodwill will be taken into account in determining the profit or loss on sale. A credit of equal amount to reserves will ensure that there is no impact on shareholders' funds.

A review for the potential impairment of capitalised goodwill is carried out if events or changes in circumstances indicate that the carrying amount of that goodwill may not be recoverable. Such impairment reviews are performed in accordance with FRS 11. Impairments are recorded in the profit and loss account.

TURNOVER

Turnover represents the values of goods and services sold to third parties, excluding taxes.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment. A review for the potential impairment of a tangible fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of a tangible fixed asset may not be recoverable. Such impairment reviews are performed in accordance with FRS 11. Impairments are recorded in the profit and loss account.

GROUP ACCOUNTING POLICIES

DEPRECIATION

Depreciation is provided on all tangible fixed assets except freehold land, at annual rates calculated to write-off the cost of each asset over its estimated useful life on a straight line basis. The estimated useful lives range from four to eight years with the exception of freehold buildings, which are depreciated over 50 years and leasehold property, which is depreciated over the period of the lease.

INVESTMENTS

All investments are stated at cost. Provision is made to reflect any impairment in the carrying value of a subsidiary in accordance with FRS 11. Impairments are recorded in the profit and loss account.

STOCKS

Stocks are stated at the lower of cost and net realisable value.

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date and which could give rise to an obligation to pay more or less tax in the future.

Deferred tax assets are recognised to the extent that they are expected to become recoverable.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse.

FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the end of the financial year except when covered by an open foreign exchange contract in which case the rate of exchange specified in the contract is used.

Profits and losses on exchange arising from the retranslation of the opening balance sheets of overseas subsidiary undertakings at the beginning of the year, or the date of acquisition, where later, and any foreign currency borrowings used to finance or hedge long term foreign investments are taken directly to reserves. The results of overseas subsidiary undertakings are translated into sterling at average rates for the year.

Transactions in foreign currencies are translated at the rate of exchange ruling at the date of transactions, or where applicable, the contracted rate. All profits and losses on exchange are credited or charged to operating profit.

FINANCIAL INSTRUMENTS

Gains and losses on forward foreign exchange contracts, which hedge future purchases and sales denominated in foreign currencies, are taken to the profit and loss account on maturity to match the underlying transactions.

The disclosures required under FRS 13 "Derivatives and Other Financial Instruments: Disclosures" relating to the management of financial instruments and their impact on the Group's risk profile, performance and financial condition are set out in note 18 to the financial statements.

LEASED ASSETS

Rentals arising on operating leases are charged in the profit and loss account on a straight line basis over the lease term.

PENSIONS

The Group operates defined benefit and defined contribution pension schemes. The expected costs of the defined benefit schemes are charged against profit so as to spread the cost of pensions over the service lives of the employees in the schemes. Variations from the regular cost are spread over the expected remaining service lives of employees in each scheme. Contributions to the defined benefit schemes are determined on the basis of professional actuarial advice in accordance with statutory requirements.

Payments to defined contribution schemes are charged against profit as incurred.

PRINCIPAL SUBSIDIARIES

	Group percentage of equity capital	Country of incorporation or registration
SPECIALISED DISTRIBUTION		
Life Sciences		
Anachem Limited*	100%	England
a1 technologies GmbH	100%	Germany
Seals Components		
Hercules Bulldog Sealing Products Incorporated	100%	USA
Fluid Power Equipment Limited*	80%	England
Interconnect		
IS Rayfast Limited	100%	England
IS Motorport Incorporated	100%	USA
Clarendon Engineering Supplies Limited	100%	England
Sommer GmbH	100%	Germany
OTHER COMPANIES		
Diploma Holdings PLC	100%	England
Diploma Holdings Incorporated	100%	USA
Williamson Cliff Limited*	100%	England

The companies marked* are directly held by Diploma Holdings PLC, the sole subsidiary of Diploma PLC. A full list of subsidiaries will be annexed to the next Annual Return of Diploma PLC to be filed with the Registrar of Companies.

FINANCIAL CALENDAR AND SHAREHOLDER INFORMATION

Announcements (provisional dates)

Half Year results announced	12 May 2003
Full Year results announced	17 November 2003
Annual Report and Accounts posted to shareholders	1 December 2003
Annual General Meeting	7 January 2004

Dividends (provisional dates)

Interim announced	12 May 2003
Paid	1 July 2003
Final announced	17 November 2003
Paid (if approved)	20 January 2004

Report and Accounts: Copies can be obtained from the Company Secretary at the address shown below.

Share Registrar – Computershare Services PLC: The Company's Registrar is Computershare Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH. Telephone: 0870 7020010.

Shareholders' enquiries: If you have any enquiry about the Company's business or about something affecting you as a shareholder (other than questions dealt with by Computershare Services PLC) you are invited to contact the Company Secretary at the address shown below.

Secretary and Registered Office:

N P Lingwood ACA, 20 Bunhill Row, London EC1Y 8UD. Telephone: 020 7638 0934. Fax: 020 7638 7651. Registered in England and Wales, number 3899848.

Web site: Diploma's web site is www.diplomaplc.com

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Diploma PLC will be held on Wednesday, 8 January 2003 at 11.00 a.m. in The Members' Room, Chartered Accountants' Hall, Moorgate Place, London EC2P 2BJ to consider, and if thought fit, approve the following resolutions which will be proposed as to resolutions numbered 1 to 6 (inclusive) as Ordinary Resolutions and as to resolution number 7 as a Special Resolution:

ORDINARY BUSINESS

1. THAT the audited accounts of the Company for the year ended 30 September 2002, together with the Reports of the Directors and Auditors, be received and adopted by the members.
2. THAT a final dividend of 9.00p per share be declared on the Ordinary Share Capital of the Company for the year ended 30 September 2002.
3. THAT the auditors, PricewaterhouseCoopers, be re-appointed and the Directors authorised to fix their remuneration.
4. THAT Mr AJC Thomas who retires as a Director by rotation, be re-appointed as a Director.
5. THAT Mr BM Thompson who retires as a Director by rotation, be re-appointed as a Director.
6. THAT Mr JL Rennocks, having been appointed to the Board since the last Annual General Meeting, be re-appointed as a Director.

SPECIAL BUSINESS

7. THAT the Company be and is hereby authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of Ordinary Shares of 5p each in the capital of the Company ("Ordinary Shares") provided that:
 - (i) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 2,264,791 or, if less, 10% of the Company's issued Ordinary Share Capital at the date of this meeting;
 - (ii) the minimum price which may be paid for such Ordinary Shares is 5p per share;
 - (iii) the maximum price which may be paid for such Ordinary Shares is 5% above the average of the middle market quotations of the Ordinary Shares derived from The London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the Ordinary Shares are contracted to be purchased;
 - (iv) the authority hereby conferred shall expire on the earlier of 8 April 2004 and the conclusion of the next Annual General Meeting of the Company, unless such authority is renewed, revoked or varied prior to such expiry; and
 - (v) the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

**By Order of the Board,
NP Lingwood, Secretary
18 November 2002**

**20 Bunhill Row,
London EC1Y 8UD**

Notes

- 1 A member of the Company who is entitled to attend and vote is entitled to appoint one or more proxies to attend and vote on a poll in his stead. A proxy need not be a member of the Company. To be effective, instruments of proxy must be received by the Company's Registrars, Computershare Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 3FA, not less than 48 hours before the time appointed for holding the meeting.
- 2 The appointment of a proxy does not prevent a member who so wishes from attending the meeting and voting in person.
- 3 There will be available at the Company's registered office during usual business hours, and also on the day, and at the place, of the meeting from 10.45 a.m. until its conclusion:
 - (i) the register of directors' interests in the shares of the Company and its subsidiaries;
 - (ii) the service contracts of Mr BM Thompson, Mr I Henderson and Mr NP Lingwood.
- 4 To have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast), a person must be entered on the register of holders of the ordinary shares of the Company by no later than 11.00 a.m. on the 6 January 2003, being 48 hours before the time fixed for the meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

FIVE YEAR RECORD

	2002 £m	2001 £m	2000 £m	1999 £m	1998 £m
Turnover					
- Continuing operations	73.7	66.3	58.4	52.8	47.5
- Discontinued operations	1.9	20.6	35.2	189.2	245.4
	75.6	86.9	93.6	242.0	292.9
Operating profit before goodwill and exceptional items					
- Continuing operations	8.9	8.8	7.8	8.0	7.4
- Discontinued operations	-	0.9	0.3	2.9	11.7
	8.9	9.7	8.1	10.9	19.1
Interest income/(costs), net	1.0	1.2	2.3	0.1	(0.5)
Profit before tax and exceptional items	9.9	10.9	10.4	11.0	18.6
Goodwill amortisation	(0.3)	(0.1)	-	-	-
Exceptional credits/(charges), net	0.5	(2.1)	(1.9)	9.2	(5.6)
	10.1	8.7	8.5	20.2	13.0
Taxation	(2.8)	(3.2)	(4.2)	(3.8)	(6.6)
Profit after tax	7.3	5.5	4.3	16.4	6.4
Capital structure					
Shareholders' funds	50.9	55.6	53.3	93.9	81.9
Minority interest	0.5	0.4	1.8	3.2	2.5
Less: net cash	(26.9)	(31.7)	(19.1)	(19.9)	-
Trading capital employed	24.5	24.3	36.0	77.2	84.4
Cash flow from - operating activities	9.9	9.4	10.3	20.9	22.2
- (acquisitions)/disposals of businesses	(2.2)	8.8	43.9	16.6	3.7
Per ordinary share (pence)					
Basic earnings	31.2	21.5	10.5	32.0	11.1
Adjusted earnings	29.4	30.2	18.0	14.0	21.9
Dividends	14.0	13.0	12.0	9.0	14.5
Net assets	225	221	211	187	163
Dividend cover	2.1	2.3	1.5	1.6	1.5
Ratios	%	%	%	%	%
Return on trading capital employed	20.3	21.7	14.4	10.3	16.8
Operating profit/sales - continuing operations	12.1	13.3	13.4	15.2	15.6

Notes

- Shareholders' funds represent share capital and reserves.
- Net cash includes cash at bank and short term deposits less bank overdrafts and loan notes.
- Trading capital employed is defined as net assets less net funds plus minority interests.
- Return on trading capital employed represents operating profit as a percentage of trading capital employed (as adjusted for the effect of the timing of major acquisitions and disposals) including all goodwill arising on acquisitions (whether capitalised or charged to reserves).
- Adjusted earnings per share is calculated in accordance with note 9 to the financial statements. Comparatives have not been restated to take account of the returns of capital.
- Net assets per share have been calculated by dividing shareholders' funds by the number of ordinary shares in issue at the year end.
- Dividend cover is calculated on Adjusted earnings as defined in note 9 to the financial statements.
- Comparatives have not been restated for the impact of new Financial Reporting Standards.
- In April 2000, a return of capital was completed by means of a Scheme of Arrangement. This achieved the result of returning £50.3m of capital to shareholders while reducing the number of shares in issue to 25.2m shares. In December 2001 a further 2.5m shares were repurchased reducing the number of shares in issue to 22.6m shares.
- The divestment of the Special Steels Division and Abacon Telecommunications was completed in the year ended 30 September 2001. The divestment of the Electronic Components Division and Robert Lee was completed in the year ended 30 September 2000. The divestment of IG and South Hills Datacomm was completed in the years ended 30 September 1999 and 1998 respectively.

DIPLOMA PLC

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