

Press Release

24 May 2004

THE BSS GROUP PLC

The BSS Group PLC ("BSS", the "Group"), leading distributors of heating, plumbing and pipeline equipment to the industrial and domestic construction and maintenance markets, announces its preliminary results for the year ended 31 March 2004.

Financial highlights:

- Group sales increased 35% to £662.8 million (2003: £490.5 million)
- Operating profit grew 36% to £28.8 million (2003: £21.2 million)*
- Profit before tax up by 31% to £24.3 million (2003: £18.6 million)*
- Earnings per share growth of 33% to 56.7p (2003: 42.7p)*
- Total dividend for the year up 14% to 14.0p (2003: 12.25p)

**pre-goodwill and exceptionals basis*

Operational highlights:

- Doubling of profits in Domestic Division over last 2 years
- Industrial Division well positioned for growth
- Pegler & Loudon, the valve distribution business, acquired in October 2003 and fully integrated
- 13 new branches opened in the Domestic Division during the year
- Target of 200 PTS branches by end of March 2005 on track

BSS' Chairman, Peter Warry, commented:

"Overall the markets in which we operate remain buoyant. The RMI sector, which accounts for the majority of our sales, continues to see good growth. Government expenditure on infrastructure projects and social housing underpins much of our markets.

"Trading for the first few weeks of the new financial year remains in line with our expectations."

For further enquiries please contact:

The BSS Group PLC

Peter Wood - Chief Executive
Kevin Higginson - Finance Director
Tel: 0207 357 9477 until 2.00pm
Thereafter: 0116 256 7002

Hogarth Partnership Limited

Andrew Jaques
Rachel Hirst
Tel: 0207 357 9477

Chairman's Statement

2004 was another year of significant progress demonstrating our ability to enhance shareholder value through securing profitable, cash generative growth. Operating profit in the Domestic Division has now doubled over the last two years, partly as a result of the Tricom acquisition, whilst in the Industrial Division the groundwork has been laid for improved performance as the market recovers.

Financial Performance

Group sales at £662.8m (which included the first full year contribution from the acquisition of the Tricom Group) were up 35% (2003: £490.5m) and operating profit before goodwill amortisation and exceptional items was also 36% ahead at £28.8m (2003:£21.2m). On the same basis earnings per share increased by 33% to 56.7p (2003:42.7p).

Exceptional costs of £3.2m (2003:£3.3m) were incurred to integrate our acquisitions. After charging these costs and goodwill amortisation of £2.9m (2003:£2.3m) statutory earnings per share were up 45.3% at 38.8p (2003:26.7p).

Cash flow remained positive resulting in year end net debt of £74.0m (2003:£78.1m). Interest cover, pre goodwill amortisation and exceptional items, has remained above our target level of 5x at 6.4x (2003:8.2x). Net assets have increased to £102.4m from £94.7m last year.

The Board is recommending a final dividend of 9.85p (2003:8.5p) representing an increased total dividend for the year as a whole of 14% to 14.0p (2003:12.25p).

Operating Performance

Industrial Division

Within the Industrial Division, parts of the construction market have been buoyed by the continued strength of Government expenditure, particularly in areas such as hospitals, schools and prisons; but general commercial activity has been relatively flat, held back by the low levels of activity within the process control market. We

have grown market share within the key heating and ventilation sales sector. Margins declined during the first part of the year but staged a recovery in the final quarter, which has been sustained into the current year.

In October 2003, BSS acquired certain of the business and assets of Pegler & Louden UK and Pegler & Louden Ireland. The business has now been integrated with our existing flow controls business under the Pegler & Louden name to create one valve distribution business.

Domestic Division

The acquisition of Tricom was completed in March of last year. Our targets for cost reductions, commercial synergies and sales retentions have all been achieved in full and the integration process was completed one month ahead of schedule at the end of August 2003. Tricom's contractor and installer sales have been integrated into PTS whilst F&P Wholesale (the major part of Tricom) has been established as a stand-alone business within the Domestic Division supplying second tier merchants. Sales growth within F&P has, as expected, been significantly ahead of the market.

Overall the Domestic Division has seen continued strong market conditions from the repair, maintenance and improvement market upon which it is concentrated. The macroeconomic conditions for continued strength of this market into the current financial year are clearly in place.

PTS opened 13 new branches during the year to 31st March 2004 and has opened a further one during the first 8 weeks of this financial year, and now operates from 179 branches. We remain on schedule to achieve our target of 200 PTS branches by the end of March 2005. Organic sales growth has also remained strong through our existing branch network and, combined with the other sales increases, has led to an excellent increase in operating profit of 88% before exceptional items and goodwill amortisation. The Division has strong sales momentum going forward.

Management

Last December, after ten years as a Director and the last four as Chairman, Anthony Fay retired from the Group. Ian McPherson, a Non-Executive Director since 1996, retired on the same date. I would like to thank Tony and Ian for their cogent advice to the Group over many years. Following these retirements I was appointed to the position of Chairman with effect from 1st January 2004 having been a Non-Executive Director since 1999 and more recently the Senior Independent Director. Terry Stockley has assumed the role of Senior Independent Director.

I was pleased to welcome Keith Lowe to the Board as Managing Director of the Industrial Division last June and he has brought fresh impetus to dealing with its challenges.

I would also like to take this opportunity to welcome Tony Osbaldiston, formerly Finance Director and then Deputy Chief Executive of FirstGroup Plc, and Roy Harrison, formerly Group Chief Executive of Tarmac PLC and currently Executive Chairman of Montpellier Group Plc, to the Board as Non-Executive Directors of the Group from 1st January 2004.

Employees

Continued success makes BSS a highly attractive employer with a wide range of career development opportunities. On behalf of the Board I would like to thank all of our employees for their hard work and determination to make the business the success it has become.

Current Trading and Outlook

Trading for the first few weeks of the new financial year remains in line with our expectations.

Overall the markets in which we operate remain buoyant. The RMI sector, which accounts for the majority of our sales, continues to see good growth. Government expenditure on infrastructure projects and social housing underpins much of our

markets. Raw material price inflation has become apparent over recent months, affecting many of our key products. These market conditions provide clear opportunities for the well prepared distributor.

I remain confident of the Group's future prospects, and as ever, your Board remains focused on enhancing shareholder value through sustainable, cash generative, profitable growth.

Peter Warry
Chairman
24th May 2004

CHIEF EXECUTIVE'S REVIEW

Overview

I am pleased to report on the third consecutive year of double digit growth in profits and earnings per share. We have achieved the significant top line and earnings growth I referred to last year, ensuring that we truly enhance shareholder value.

The general market place has been favourable for our businesses. Over 60% of our turnover is into the Repair, Maintenance and Improvement (RMI) market which has been, and remains, buoyant. The government commitment to improve the quality of social housing has led to opportunities with Local Authorities and contractors on a long term basis providing a solid and secure revenue stream for the business. Equally government backed spend on social services such as the construction of hospitals and schools plus the enhanced security and expansion spend at airports, has aided the new build sector. Commercial construction remains difficult, especially in the South East and industrial manufacturing remains weak, with few new project opportunities. However, overall most of our business is in the stronger sections of the market place.

We are seeing higher rates of raw material price inflation impacting in particular steel and copper tube, but also feeding through to boilers, radiators and valves. These continuing pressures have arisen from high Far Eastern demand, particularly China. However, market conditions such as this provide good opportunities for the nimble distributor.

The industry faces a period of significant product change as it addresses the government's environmental initiatives accelerating change towards high efficiency boilers. We continue to work closely with our key suppliers to optimise our stock levels whilst maintaining overall product availability.

The current team of Executive Directors have now worked well together for almost a year. We continue to strengthen our middle management; in particular the sales and commercial functions of the business. I am very pleased at the calibre of senior management we now have within the Group.

Industrial Division

	Year ending 31 March 2004 £m	Year ending 31 March 2003 £m	Change %
Sales	217.6	206.7	5.3
Operating Profit (pre-goodwill amortisation and exceptionals)	10.0	11.2	-10.7

This business is now truly branch based and sales led, operating out of 57 branches in the UK and 2 in Ireland. Our heating and ventilation sales grew by 6.6% in the last year, demonstrating growth in what has been at best a static market. Merchenting sales were flat and process sales declined, reflecting weak demand from the UK manufacturing sector.

We have slimmed down our operational management structure from 10 to 5 Regions, each Region being managed by a Regional Director and Sales Director. Four of the ten key people in this structure are external appointments, reflecting the way we are bringing in new talent whilst retaining the values that gave BSS its strong market reputation.

We have also reorganised the commercial team, appointing a new Commercial Director. This function is now operating faster and more professionally, interacting well with the operational side of the business enabling us to handle the current volatile markets. We are focusing on our fifteen key suppliers to stimulate growth, with particular emphasis on our development areas such as plastics and controls. Within logistics we have improved distribution for tube product, creating better stock availability and reduced cost through the elimination of third party warehousing.

The Divisional management team has been completed by the appointment of a new Finance Director, again attuned to the pace and activity levels required in the business.

The Pegler & Louden business, acquired in October, provides an opportunity to grow our business in the end user process market by combining the Pegler & Louden business and our flow control activities. This integration has gone well and the consequent critical mass will enable us to progress even during the current difficult market conditions, and we will be ready to benefit from any upturn once it arises.

Organic growth and margin enhancement through a leaner, sales focused business, ably supported by strong commercial, logistics and financial functions, has enabled us to see progress in the fourth quarter. We look to the Industrial Division to generate growth in the new financial year.

Domestic Division

	Year ending 31 March 2004 £m	Year ending 31 March 2003 £m	Change %
Sales	445.2	283.8	56.9
Operating Profit (pre-goodwill amortisation and exceptionals)	18.8	10.0	88.0

The Domestic Division has fuelled the last two years growth for the Group. These results include a full year's contribution from Tricom, which was fully integrated, on time and within budget. It has exceeded our expectations on sales retention levels, commercial synergies and cost savings.

PTS

During the year PTS opened 13 branches and in addition a further 4 were transferred from Tricom. The branch network now approaches 180 and our target to grow to 200 branches by March 2005 is firmly on track. We have seen clear benefits from social housing initiatives across the UK and have achieved significant growth as the business has developed a strong reputation in its partnering with Local Authorities and the contractors who service them.

At the other end of the scale the new branches are based mainly on the smaller plumber and installer and we have consistently beaten our target of bringing branches into cumulative profit in a little over six months.

We have a target business mix of 60% heating products and 40% plumbing products. Currently the mix is 63% heating and 37% plumbing. Significant growth in the higher margin plumbing side has already been achieved and there is more to go for. We see sanitaryware, increasingly, as a growth area, driven by an increasing number of bathrooms in new houses and the fact that these products are becoming fashion products that people change more frequently than in the past.

PTS has developed an outstanding reputation with suppliers as it continues to grow much faster than the market. The open, straightforward attitude of the management team has enabled this progress to be sustained. Going forward we look for PTS to maintain its growth.

F & P

This business is now fully based on servicing the second tier merchants in which it is market leader. We have continued to see double digit growth, well ahead of the market in what is still a fast growing sector.

The Pro brand has been very successful in the heating area through its Protherm and Prorad products. We are now extending this to plumbing with the introduction of a Pro Tempo bath pack. As with PTS, there are large growth opportunities in sanitaryware and we are utilising the warehouse space made available following the transfer of business to PTS. The tried and tested management team has been augmented by the infusion of some new blood to enable us to accelerate our growth into the sanitaryware and tube and fittings markets. We look forward to a further year of solid progress.

Summary

Our businesses are either leaders or second in their respective markets. We have achieved record sales, profits and earnings per share. We continue to strengthen our balance sheet through enhanced profitability and excellent working capital control. We are now seen as the merchant with momentum. The current markets provide the business with plenty of opportunities to develop and with our strong branch based, sales led management philosophy well established, I remain confident for the future.

Peter Wood**Chief Executive****24th May 2004**

The BSS Group PLC
Consolidated Profit and Loss Account
For the year ended 31st March 2004

		2004		2003			
	Notes	Operations before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items (note 3) £m	Total £m	Operations before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items (note 3) £m	Total £m
Turnover	2	662.8	-	662.8	490.5		490.5
Operating profit		28.8	(6.1)	22.7	21.2	(5.1)	16.1
Interest payable and similar charges		(4.5)	-	(4.5)	(2.6)	(0.5)	(3.1)
Profit/(loss) before taxation for the year		24.3	(6.1)	18.2	18.6	(5.6)	13.0
Taxation	4	(7.7)	0.9	(6.8)	(6.1)	0.9	(5.2)
Profit/(loss) after taxation for the year		16.6	(5.2)	11.4	12.5	(4.7)	7.8
Dividends	5			(4.1)			(3.6)
Transferred to reserves				7.3			4.2
Earnings/(loss) per share	6	56.7p	(17.9p)	38.8p	42.7p	(16.0p)	26.7p
Diluted earnings per share	6	55.8p	(17.6p)	38.2p	42.3p	(15.9p)	26.4p

All results derive from continuing activities.

Statement of Total Recognised Gains and Losses

	2004	2003
	£m	£m
Profit after taxation for the year	11.4	7.8
Foreign currency translation differences	(0.1)	0.3
Total gains and losses recognised relating to the year	11.3	8.1

The BSS Group PLC
Consolidated Balance Sheet
For the year ended 31st March 2004

	2004	2003
	£m	£m
Fixed assets		
Intangible assets	46.3	49.2
Tangible assets	19.9	20.1
	66.2	69.3
Net current assets		
Stocks	87.8	85.6
Debtors	128.4	114.1
Current assets	216.2	199.7
Creditors (amounts falling due within one year)		
Finance debt	(9.8)	(7.2)
Trade and other creditors	(103.4)	(93.9)
Net current assets	103.0	98.6
Total assets less current liabilities	169.2	167.9
Creditors (amounts falling due after more than one year)		
Finance debt	(64.2)	(70.9)
Provisions for liabilities and charges	(2.6)	(2.3)
Net assets	102.4	94.7
Capital and reserves		
Share capital	5.9	5.8
Share premium account	27.0	26.6
Merger reserve	12.4	12.4
Profit and loss account	57.1	49.9
Shareholders' funds- equity	102.4	94.7

Cash Flow Statement

For the year ended 31st March 2004

	2004	2003
	£m	£m
Cash flow from operating activities	23.4	17.6
Operating Profit	22.7	16.1
Increase in stock	(0.9)	(2.3)
Increase in debtors	(15.0)	(2.8)
Increase in creditors	10.4	1.1
Other non cash movements	6.2	5.5
Returns on investments and servicing of finance	(3.9)	(2.6)
Interest paid on bank borrowings	(3.9)	(2.3)
Issue costs on new borrowings	-	(0.3)
Taxation	(6.8)	(4.7)
Capital expenditure	(3.0)	(2.1)
Purchase of tangible fixed assets	(5.6)	(3.1)
Sale of tangible fixed assets	2.6	1.0
Acquisitions	(2.3)	(28.7)
Purchase of subsidiary undertaking	(0.8)	(16.6)
Purchase of trade and assets	(1.5)	-
Overdraft acquired with subsidiary undertaking	-	(12.1)
Equity dividends paid	(3.7)	(3.3)
Cash inflow/(outflow) before financing	3.7	(23.8)
Financing	(3.7)	23.8
Issue of ordinary share capital	0.5	0.1
Repayment of short term borrowings	(6.7)	(2.3)
Repayment of long term borrowings	-	(1.7)
Receipt from issue of short term borrowings	-	-
Receipt from issue of long term borrowings	1.4	29.5
New finance lease	1.2	-
Capital element of finance lease payments	(0.1)	(1.8)
Increase in cash in the year	-	-
Cash inflow from decrease/(increase) in debt and lease financing	4.2	(23.7)
Change in net debt resulting from cash flows	4.2	(23.7)
Debt acquired with subsidiary	-	(4.4)
Other non cash movements	-	-
amortisation of issue costs on borrowings	(0.1)	-
Movement in net debt in the year	4.1	(28.1)
Net debt at beginning of year	(78.1)	(50.0)
Net debt at end of year	(74.0)	(78.1)

The BSS Group PLC

Notes

1 Basis of Preparation

The above financial information is extracted, in abridged form, from the Group's full accounts for the year ended 31st March 2004 upon which the auditors have given an unqualified opinion. The full accounts will be filed with the Registrar of Companies in due course. The Report and Accounts will be posted to all shareholders. Copies will be available from the Registered Office of the Company, Fleet House, Lee Circle, Leicester LE1 3QQ.

2 Segmental information

	2004			2003		
	Industrial Division	Domestic Division	Total	Industrial Division	Domestic Division	Total
	£m	£m	£m	£m	£m	£m
Turnover	217.6	445.2	662.8	206.7	283.8	490.5
Operating profit	10.0	18.8	28.8	11.2	10.0	21.2
Goodwill amortisation	(0.1)	(2.8)	(2.9)	(0.1)	(2.2)	(2.3)
Exceptional items	(1.5)	(1.7)	(3.2)	(1.0)	(1.8)	(2.8)
Operating profit	8.4	14.3	22.7	10.1	6.0	16.1
Net Assets						
Divisional assets	52.9	81.9	134.8	52.3	74.3	126.6
Goodwill	0.9	45.4	46.3	1.0	48.2	49.2
	53.8	127.3	181.1	53.3	122.5	175.8
Properties			2.1			3.4
Finance debt			(74.0)			(78.1)
Taxation- net creditor			(3.9)			(3.9)
Proposed dividends			(2.9)			(2.5)
Net assets			102.4			94.7

3 Goodwill Amortisation and Exceptional Items

The charge comprises goodwill amortisation of £2.9m (2003: £2.3m) on which there is no tax relief and the exceptional items set out below:

	2004	2003
	£m	£m
Integration of acquisitions	3.2	1.5
Group cost reduction programme	-	1.3
Write off of bank arrangement fee	-	0.5
	3.2	3.3

Integration costs represent redundancies and the closure of duplicate branches and related expenditure in respect of the acquisition of Tricom Group Limited and the trade and assets of Pegler & Loudon.

The cost reduction programme resulted in exceptional costs in relation to the reduction of manpower and the removal of some overhead costs.

4 Taxation

Tax is charged at the basic rate of 30% on the profits of the year. The overall tax charge is affected by expenditure not eligible for tax relief, including goodwill amortisation and some exceptional costs.

5 Dividends

An interim dividend of 4.15 pence per share (2003: 3.75 pence) was paid on 14 January 2004. The proposed final dividend of 9.85 pence per share (2003: 8.5 pence) will be paid on 20th July 2004 to those shareholders on the register at the close of business on 25th June 2004. Dividend warrants will be despatched after approval of the dividend at the Annual General Meeting.

6 Earnings per Share

Earnings per share are calculated on a weighted average of the shares in issue during the period.

The diluted earnings per share has been calculated by adjusting the weighted average of the shares in issue during the period for the effects of the future exercise of employee share options. Options are considered to be dilutive when they would result in the issue of ordinary shares for less than fair value.

	Year Ended 31st March 2004	Year Ended 31st March 2003
Earnings per Share		
On profits before goodwill amortisation and exceptional items	56.7p	42.7p
On profits after charging goodwill amortisation and exceptional items	38.8p	26.7p
Diluted Earnings per Share		
On profits before goodwill amortisation and exceptional items	55.8p	42.3p
On profits after charging goodwill amortisation and exceptional items	38.2p	26.4p

Earnings per share and diluted earnings per share have been calculated in accordance with Financial Reporting Standard 14, 'Earnings per Share'.

The calculation of earnings per share pre and post goodwill amortisation and exceptional items is based on the profit/loss after taxation pre and post goodwill amortisation and exceptional items and an average of 29.293 million shares (2003: 29.185 million shares).

The calculation of diluted earnings per share pre and post goodwill amortisation and exceptional items is based on the profit/loss after taxation pre and post goodwill amortisation and exceptional items and an average of 29.779 million shares (2003: 29.470 million shares) including dilutive potential ordinary shares available under share option schemes.

7 Annual General Meeting

The Annual General Meeting will be held at 3.00pm at the Hilton Leicester Hotel, Junction 21 approach, Leicester, LE19 1WQ on Monday 19th July 2004.