Chairman's statement

Results

Difficult trading conditions persisted throughout the year in all our major markets, with the electronics, telecommunications and general manufacturing sectors continuing to be weak.

Against this backcloth, Group sales declined by 2.6% (adjusted for trading days and exchange rates) to £743.7m from £759.6m and profit before tax and amortisation of goodwill declined by 4.4% to £100.9m from £105.5m. The return on sales declined slightly to 13.6% from 13.9%.

Profit is stated after £3.9m of one-off costs: £1.5m relating to the costs of relocating to our new warehouse in Germany and £2.4m relating to the withdrawal from specialised activities in the United Kingdom directed at the telecommunications and related sectors; this withdrawal also lowered sales by £3.8m. Additionally, the major systems investment project in Europe and Asia incurred costs £2.7m higher than last year. Sales and marketing costs critical to the Group's growth also increased.

We take some encouragement from our performance in the second half of the year which showed improvement on the first half without any significant change in the trading backdrop. Whilst the full year sales and profits declined from the prior year, I believe the Group's overall performance was robust in the circumstances.

In spite of the tough conditions, management has continued to make investments designed to achieve the strategic potential of the Group. Our firmly held belief is that there are significant growth opportunities for our business model around the world. This belief was powerfully reinforced through the year by the sales performance of our businesses in Japan and China, the resilience in continental Europe and the United States and our international success with e-Commerce. Also, important pilots have been carried out in the United Kingdom in service sectors where RS has traditionally been less strong. These demonstrate that the United Kingdom is far from being a mature market and have led to an increase in our sales and marketing efforts in these areas. Our continued ability to improve gross margins (up to 52.7% versus 51.0% last year) underlines the value that customers place on our services.

Cash flow was again strong. Working capital was tightly controlled and showed a further reduction on last year. Capital expenditure declined from its peak of £47.2m last year to £31.3m and will continue to fall as major spends on warehouses and systems are completed. As a result, and benefiting from significant exchange rate movements, net debt reduced £6.1m during the year to £46.9m.

Dividend

The Board recommends that the final dividend be increased by 6.8% to 11.75p to give a full year dividend increase of 6.9% to 17.0p. Though the reported earnings for the year of 16.5p do not fully cover the recommended dividend, the Board recognises that the earnings have continued to be depressed both by trading conditions and by our investment programmes. The dividend growth is underpinned by the ability of our businesses to generate cash. The Board's dividend decisions continue to be based on these considerations together with its assessment of the Group's medium term growth opportunities.

Board

The Board has met 11 times through the year including a two-day strategy review and an operational review of the year's forecast. In addition the Italian business was visited as such visits enable the Board to gain further insights into the Group's operations.

The Board has always been, and will continue to be, an enthusiastic supporter of managing listed companies to the highest standards. To achieve the desired standards of governance not only requires the appropriate mix of the highest calibre independent and executive directors, but also considerable flexibility. We remain

Bob Lawson
Chairman

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concerned that the full implementation of the Higgs proposals may be too prescriptive to be really effective.

Management

The leadership team has remained stable through the year, and the regional structure introduced last year has now become fully operational. This structure is important to ensure that, as the operating companies within each region grow, the core elements of our business model are maintained and strengthened through consistency of the offer to customers, sharing best practices and keeping tight controls. Supporting the Executive Director Committee are the General Managers of each Region and of each Process who together form the Group Executive Management Team. This team executes our strategy.

Staff

For several years now, our people have experienced tough and demanding trading with many of our customers exhibiting weak demand in our more traditional areas of strength. Our teams have been resourceful in exploiting opportunities and creating new ways to serve customers whilst continuing to drive efficiencies within our organisation. I have been impressed by their commitment and resilience and express the Board's thanks to each employee. Each has contributed to Electrocomponents maintaining service leadership in our markets.

Current Trading

Since the year end, our markets have continued to display weakness. Recent leading indicators such as Purchasing Managers Indices suggest no improvement in the trading environment in the short term.

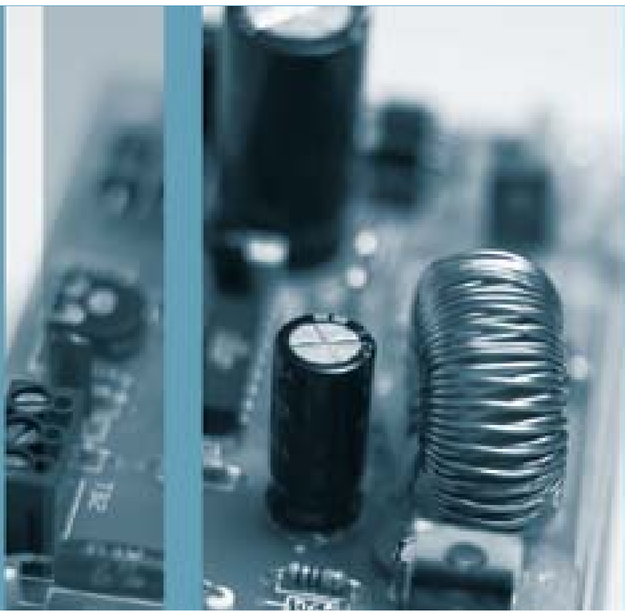
In the UK, our actions have continued to reduce the rate of year-on-year sales decline. Sales per day are approaching those of a year ago. Sales in our continental European businesses have been particularly affected by public holidays compared to last year, but the underlying sales growth remains similar to that of the second half. Allied in the United States has continued to grow, maintaining the second half trend. Japan has enjoyed even higher sales growth, reflecting further success in e-Commerce. Elsewhere, sales in our Asian businesses have held up well despite the SARS restrictions. Overall, monthly sales of the Group (adjusted for exchange rates and trading days) are broadly level with the same period last year.

Gross margin has shown a further small advance. We have also continued to manage costs tightly, whilst sustaining our strategic investments. The first half of this year will see the first implementation of our major European systems project and some disruption costs are anticipated. Cash flow remains strong.

We remain firmly of the view that the Group is able to generate superior and sustainable earnings growth. Our confidence is based on our strong market position, the opportunities open to us in all our markets and the great choice, service and value that we offer.

Bob Lawson

Bob Lawson, Chairman



e-Commerce sales across the Group were up **55%** on last year