ELECTROCOMPONENTS PLC

ANNUAL REPORT & ACCOUNTS

1999

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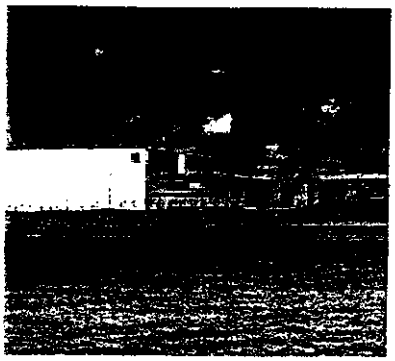
ANNUAL REPORT AND ACCOUNTS

Trade Counters continue to offer customers immediate service

It's the quality of the relationships between our businesses and our customers that gives the Group a competitive edge around the world

RS catalogues and CD-ROMs support customers worldwide



The Nuneaton, UK warehouse supports worldwide order fulfilment

Strategic progress with all the elements coming into place for us to become truly global

Serving customers in one of seven RS offices in Hong Kong and Mainland China

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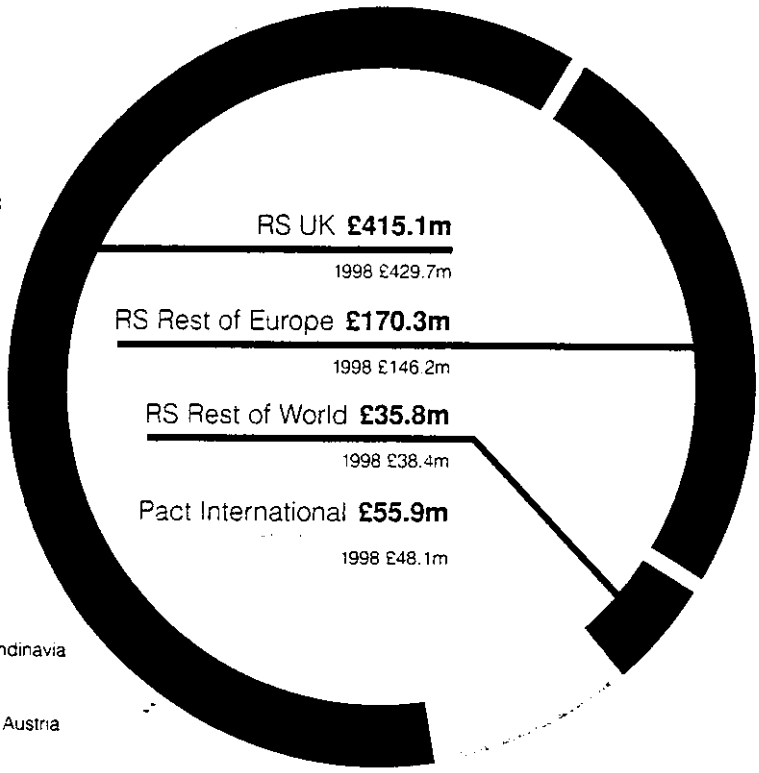
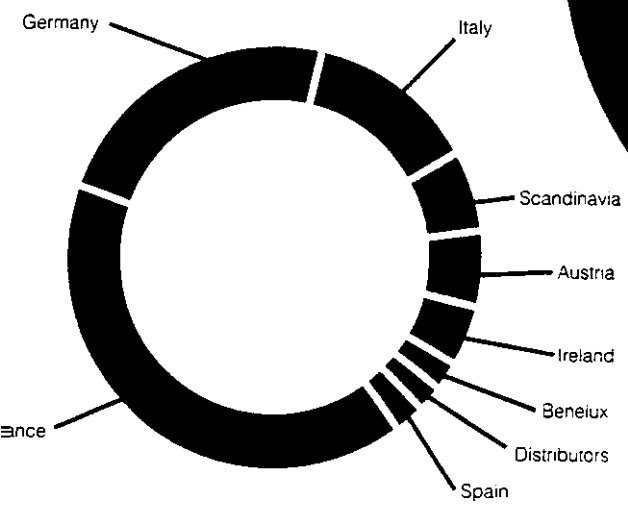
FINANCIAL HIGHLIGHTS

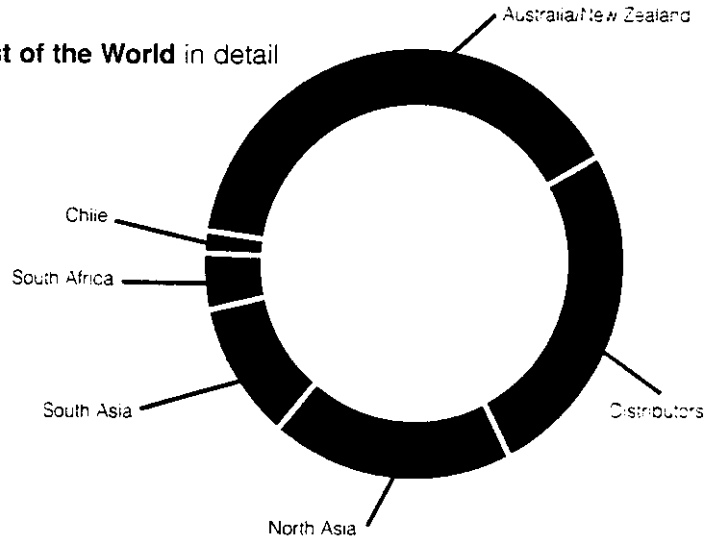
Electrocomponents Group Turnover **£677.1m**



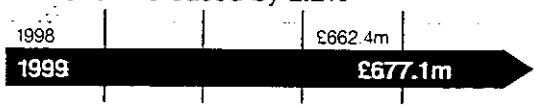
RS Rest of Europe in detail



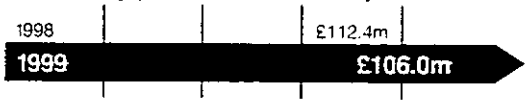
RS Rest of the World in detail



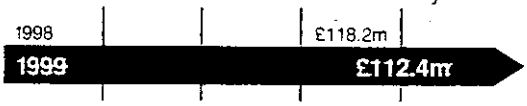
Turnover increased by **2.2%**



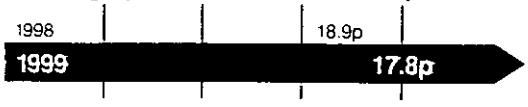
Operating profit decreased by **5.7%**



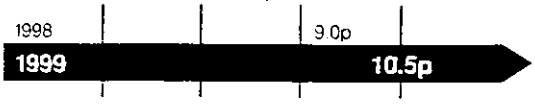
Profit before taxation decreased by **4.9%**



Earnings per share decreased by **5.8%**



Dividend increased by **16.7%**



GROUP

STRATEGY

Our value proposition is the core of our financial growth

As we have stated consistently, leadership of the high service segment of whatever distribution market the Group serves is the basis of our strategy. We more than meet the service expectations of our customers through sustained investment and by the commitment of our people. This strategy will, we believe, generate high returns for our shareholders over the long term.

The Group strategy builds on the long experience gained from creating and developing high service distribution in the UK. The continued strength of RS in the UK reflects successive developments of the product and service offers. Expanded and effective product ranges attract new customers and build the frequency of orders over time. Our experience shows that a radical extension of the product range into such areas as Mechanical and Health and Safety brings new customers with the same demand for high service, as does the provision of new services such as trade counters, extended hours, CD-ROM and most recently Internet trading.

High service is what differentiates the Group from other distributors and wholesalers. Our customers value service above price and it is the margin from this value proposition that provides the finance for growth. A sophisticated infrastructure is required for a new service, a new product offer or a new geographic market. We serve users whose demand is immediate but usually small. Whilst average order value is low the number of customers is large as is the range of products that must be immediately available.

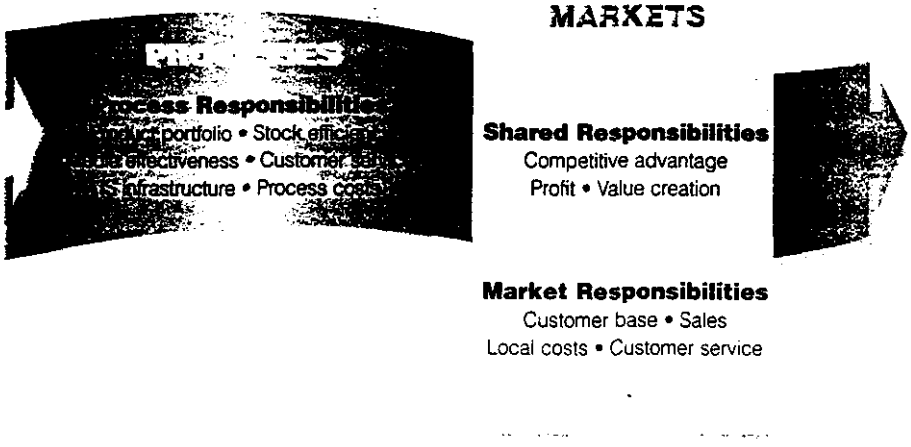
From day one the service must be right – demanding good systems, good catalogues and a fully trained team. This means a substantial front end investment, but also presents a considerable barrier to new entrants.

The Group creates growth by identifying opportunities for high service distribution in markets that have the potential to support such a business. Over the last decade bases have been established throughout Europe and our customers' need for the service and willingness to pay for the value received has been proven. The size of the manufacturing sectors of Germany, France and Italy show that each present opportunities to the Group at least as large as that of the UK. As a natural consequence our strategy is to accelerate growth in these markets by viewing Europe as a region with common core products and services. This will mean a rapid expansion of the product offer, more investment in local services and the management of stocks, warehouse facilities and catalogues as regional assets.

The Group's experience and size in the UK gives us great confidence in successfully realising an aggressive European strategy.

Asia, despite the recent difficulties, remains a high priority for us. We are creating the leading high service distribution Group in this region. Singapore is developing rapidly as the hub for the ASEAN countries whilst Hong Kong provides the base for China.

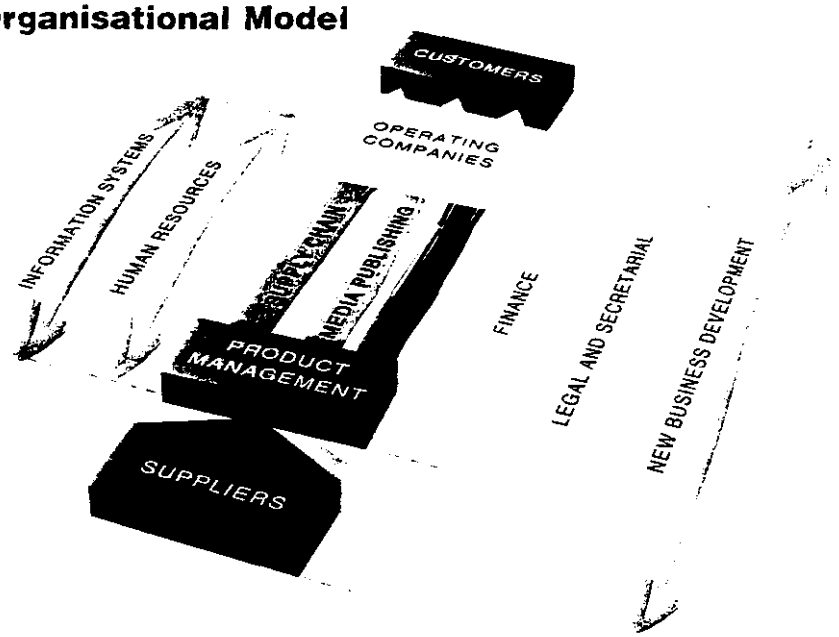
We launched the RS business in Japan on 1 March 1999. This market has very high potential and the service RS offers does not exist. →



Is the future for buying e-commerce?

New methods save time and money

Electrocomponents Group Organisational Model



Our RS businesses worldwide are characterised by similar gross margins (reflecting the willingness of customers to pay for our service) and by similar order values (reflecting the support required by our customers). This consistency gives confidence in our formula for long term organic growth and profitability.

Organisation Major changes took place in the Group's internal organisation in 1997. The main elements of the matrix structure we continue to operate are:

Operating Companies Serve local customers with an unequalled mix of information, services and products drawn from the Groupwide processes. The businesses are staffed by local people and measured on sales and profit contribution.

→ It is our plan to create and lead the high service distribution segment in this market, thereby providing excellent growth opportunities for the long term. This is our largest greenfield investment to date.

It is only in the United Kingdom and United States where the high service concept of distribution has really become established. The US market is both large and dynamic and a presence there at an appropriate time has always been desirable. Such a resource commitment also needs to be consistent with achieving a leading market position and deriving positive shareholder value. Our recent announcement of the conditional agreement to acquire Allied Electronics Inc from Avnet Inc fulfils these needs.

Allied is a well established, high service distributor of electronic components. It has an excellent reputation for serving its customers. As part of Electrocomponents, Allied will extend our global presence and play a key role in the Group's strategic development. The broader strategic alliance with Avnet, a high volume distributor, also offers exciting opportunities for mutually enhanced product offers and customer service.

These developments substantially complete our international coverage.

Product Management Identifies and selects products to be sold by the Group and purchases them in the most effective manner. These teams are international and are measured on gross profit by product.

Supply Chain Responsible for the logistics of product supply, including management of all stocks. The team is measured on stockholding efficiencies and effectiveness in meeting customer order demand.

Media Publishing Provides the central expertise for design and implementation of all media. The measurements are effectiveness of the media, excellence of support and meeting cost targets.

Facilities Provides the expertise to develop our warehousing capacity and properties internationally. This team, together with the Supply Chain, provides the integrated logistics requirement for the Group. The measurement is cost effectiveness and efficiency.

Information Systems Responsible for all hardware, software and systems development. An important responsibility is to monitor and assess systems innovation. The team is measured on cost effectiveness and benefits achieved.

Human Resources Responsible for the recruitment, development, motivation and retention of employees. There is a central core team which is supported by local expertise. Key measures are the availability of skills to meet business needs and their retention.

Finance Provides guidance and support for forecasting and measuring business performance. Individuals form part of Operating Company and Process management teams, whilst a central resource manages external reporting, tax, treasury and operational audit. Measurement is on effectiveness.

Legal and Secretarial Provides expertise and control to ensure conformance to international and local laws and regulations. The measurement is effective compliance and cost effectiveness.

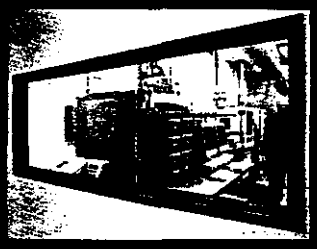
Over the past 12 months key members of these Groupwide Processes have been co-located with the Group Executive Committee at the International Management Centre in temporary premises at Oxford. The permanent IMC building is nearing completion and will become operational in autumn 1999.

Successful relationships need trust, commitment and an understanding of each other's business

Knowing your customer has always been the differentiator. Today the most successful relationships require commitment and an in depth understanding of your customer's business. Keith La Roche from RS knows all about such relationships.

"We're looking to improve the way people trade together and the relationship behind that is critical," says Keith; "it's not about short term win, it's more of a long term solution."

Keith has been working with Jon Bolger, the senior buyer at Hewlett Packard's Bristol site, which comprises a manufacturing division and the European R&D centre. Jon's objective was to reduce HP's supplier base and find an ordering system that was faster and provided better control than the one they were using.



One of HP's many research and development labs

The first to meet Jon's criteria was the RS Internet Trading Channel. After 2 months of planning, then 3 months of evaluation at HP, the system is up and running with over 250 end users.

"Its major benefits," said Jon, "are that it supplies real-time information." This means online product access with stock-check availability, an order history, and a technical library of over 15,000 data sheets. The RS server holds details of each registered buyer, with pre-set limits. Everything is controlled and buttoned down, yet every end user has access to over 100,000 products on their desk.

The benefit, as Keith explains, "is to give purchasing control, but devolving the actual process back to the order generator. Another advantage is that the site is easy to navigate and easy to use." "The Internet is nowhere near as complicated as people make out," agreed Jon; "the feedback from our end users is that it definitely saves time."

The arrangement, which saves time and money for both HP and RS, is a good example of the mutual benefits that can be gained by working closely together. As Jon put it: "It's a new type of supplier relationship which is really more of a partnership."

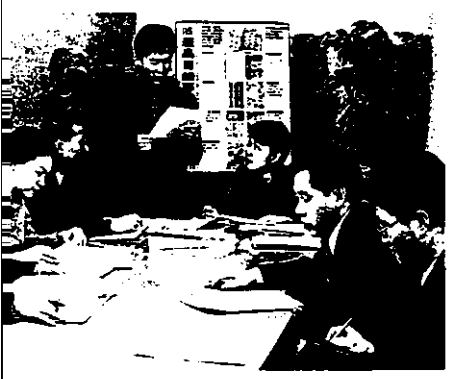
CHAIRMAN'S STATEMENT

Roy Cotterill

A year of significant strategic progress

Results

Turmoil in the Far East, less than buoyant economies in much of Europe, and a recession in the UK manufacturing sector have made for a challenging year as we pursued our path of international expansion as a high service distributor to technical users. In these conditions it is a considerable pleasure to report sales up 3.2% (at constant exchange rates and day adjusted) to £677.1m and profit before tax of £112.4m (£118.2m). Although this profit was 4.9% less than last year, it is struck after incurring expenses of £4.0m on the launch of RS in Japan, further investment in Internet trading and the build up of our process capabilities.



New business initiatives for China being discussed by a North Asia management team

Net funds have at the end of the year risen by £32.7m to a healthy £120.6m. In view of the clearly demonstrated cash generating capacity of the business and our confidence in the returns from strategic investments now underway, your Board has decided to recommend an increase in the final dividend of 16.9% to 7.25p, making a total of 10.5p for the year, an increase of 16.7%. This dividend will be covered 1.7 times by earnings per share of 17.8p and will represent the thirty-first year of consecutive increase.

Initiatives

The launch of the RS business in Japan was achieved on schedule on 1 March at the planned £4m cost. We have a fine, enthusiastic and well-trained team in Yokohama. Indications to date are encouraging and we believe that sales will develop to plan.

Electronic trading via the Internet, which was introduced in March 1998, has grown apace and ahead of expectations and we are now entirely convinced that it will increasingly become a more important channel of trading. Our site has received several awards, and I recommend shareholders to visit the RS trading site at rswww.com.

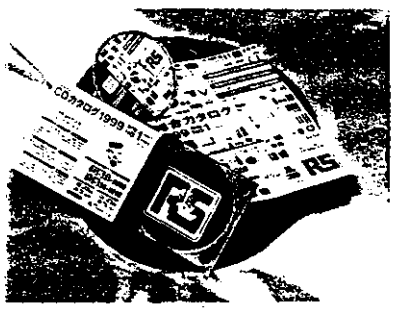
Both of these initiatives provide huge opportunities for the Group.

Acquisition of Allied Electronics Inc

Electrocomponents is the leading high service distributor of technical components in Europe. With the objective of building on this position, we have expanded into new geographic markets and have, for several years, maintained a watching brief in the largest, the United States. In the medium and certainly the long term, we believe that to become global a US presence will be necessary.

We were delighted to announce, on 8 June, our conditional agreement to acquire Allied Electronics Inc from Avnet Inc for $380m (£237m), conditional, inter alia, upon clearance under the Hart-Scott-Rodino Antitrust regulations with anticipated completion on 2 July. Allied is a leading high service distributor in the US. We have also reached agreement with Avnet to enter a strategic alliance whereby each group will assist the other in their respective areas of market focus.

Allied is a highly regarded high service distribution business operating throughout North America



The new Japanese language RS catalogue and CD-ROM

which meets admirably the criteria we set for a US acquisition. Its business resembles the RS model, it has pursued a similar strategic direction, it is of a manageable size for the Group and it has a very experienced and effective management team that has grown the business successfully. It will be financed from our own resources. We believe that Electrocomponents and Allied will be able to exchange skills, techniques and experience that will strengthen both parties.

Helpful and friendly personnel are all part of the RS service

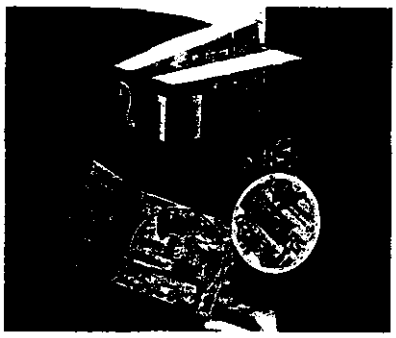
Employees and Directors

This year at the AGM we lose the services of our two most senior non-executive Directors to the inevitability of time. Each has served for approximately 10 years, each has given unstintingly of his time and advice and both will be missed, not only for their wisdom, but also for the humour and fun that they have brought to our meetings. We wish Ron Artus and Ray Horrocks all happiness in the future. The Board anticipates the announcement of a new non-executive Director shortly.

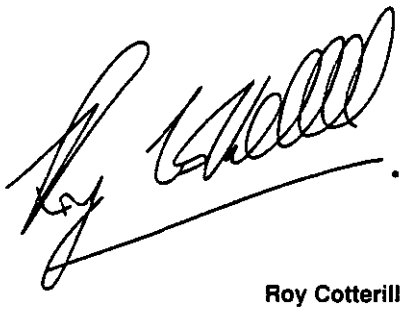
This year it is my pleasure to welcome to our Group the new employees in Japan, who now number 50, and also, in anticipation, the 460 people at Allied in North America. I hope and believe that they will find the Electrocomponents Group a stimulating and enjoyable place to work and we couple this welcome with the usual but nonetheless very sincere thanks to all our people everywhere.

Current trading

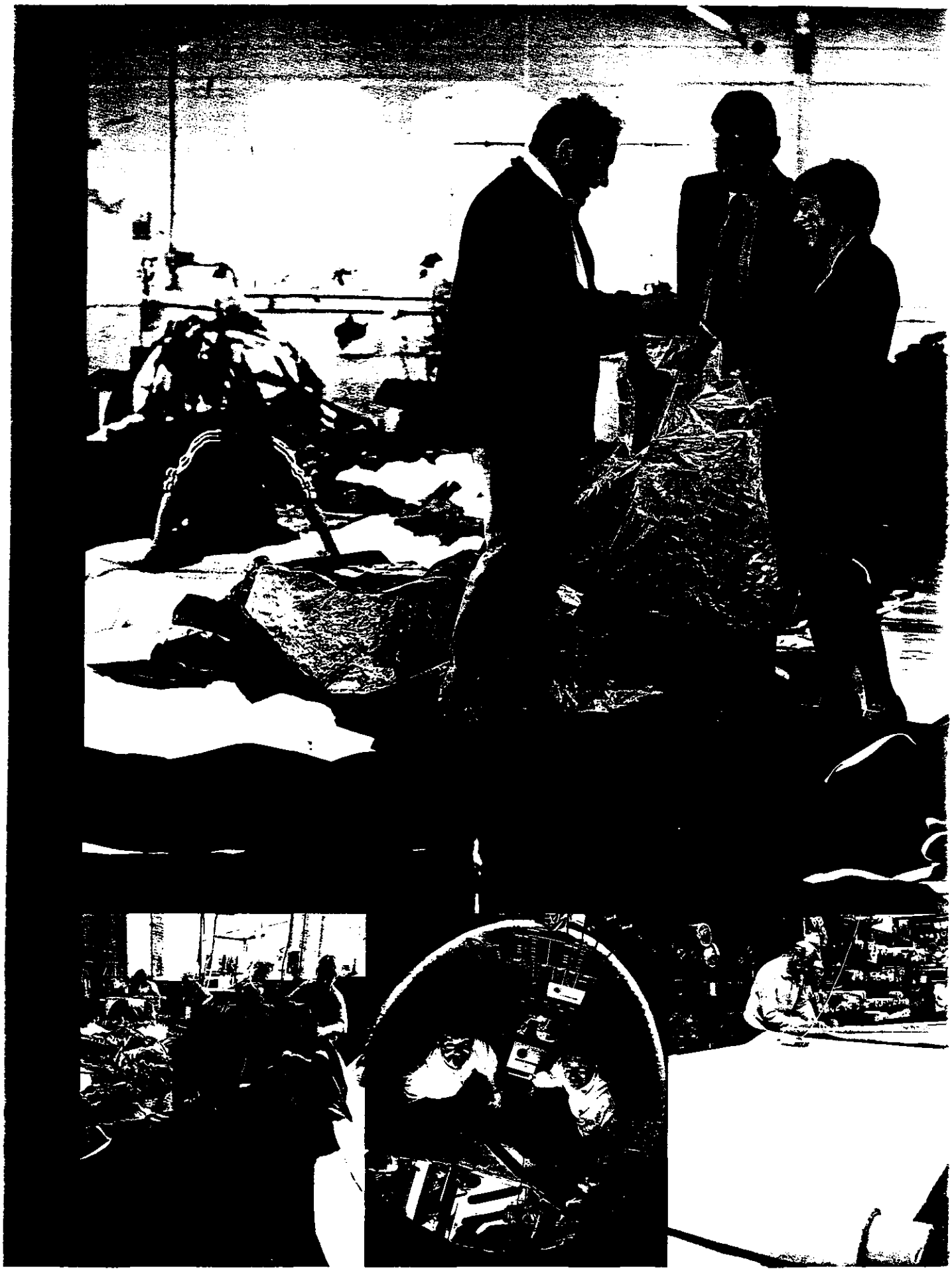
Because I have a great belief in the long-term prospects of Electrocomponents, and because we have now put in place the elements required to be truly global, this is a positive statement. It is appropriate to introduce a note of caution as we are not immune to trading conditions. There has been no growth in the UK manufacturing sector for over a year, and understandably our customers are cautious. Growth in some of the European economies has been much slower than anticipated towards the end of the year. With conditions in the Far East returning to some normality, our growth there has shown some recovery. These trends have persisted in the first two months of the new year, albeit we continue to strengthen our market position.



The Italian RS catalogues and CD-ROM



Roy Cotterill
Chairman



Record breaker stops to say thanks

The responsibility of the supplier is clear-cut: deliver the right parts to the customer in the time expected. But what if the customer's life was at risk should those parts fail to perform? Such circumstances are few and far between, but, when they do occur, they can bring about a rather special relationship between supplier and customer.

Unless you live on a media-free island, you will have been aware of today's magnificent men in their high-tech balloons attempting to fly around the world.

Jean Hamilton, a Telephone Sales Engineer at RS Components UK, was more aware than most because of her association with RS customer Andy Elson. Andy was the instigator, design engineer and main pilot on the Cable and Wireless balloon.

When Andy first spoke to Jean they discussed how RS could help. "I thought they were balloon makers," said Jean, "but then Andy told me it was a race around the world. He called every now and again to let us know how the project was going; they sent us a map and we followed the balloon on a daily basis on the Internet." For Jean this was certainly not a run-of-the-mill customer: "It was brilliant and made a nice change," she said.

The C&W balloon took off from Almeria in Spain on 17th February 1999 and landed 17 days later 100 miles east of Japan, having nearly doubled the previous endurance record, flying more than 9,000 miles around the world.

"RS supplied thousands of parts," said Andy, "from capacitors and resistors to overalls and hand cleaner. Nearly all the electrical plugs that connected the internal systems to the outside of the gondola came from RS."

Detailed technical information was also supplied by RS. "As you can imagine," said Andy, "our working environment is a little out of the ordinary. With temperatures down to -70°C and with low atmospheric pressures, as encountered at 55,000 feet, we needed to be sure that the external fans for the balloon envelope's active cooling system could cope with such conditions. RS helped us select the fans that we then tested before incorporating them in the final design."

Andy was certainly impressed by the RS service: "RS deliveries were brilliant, always on time and accurate," he said.

Perhaps the highlight for Jean was receiving a thank-you fax from Andy. "At first," said Jean, "I thought it had come from London." But it had, in fact, been transmitted from the balloon as Andy flew at 12,310 feet along the Chinese border.

This really was a rather special relationship and the first few lines of Andy's fax say it all. 'Dear Jean, A brief note to say thanks very much for all your help during the building of our balloon and all its systems. RS is a brilliant company to deal with, the service sets standards that most other companies can't even dream of.'

CHIEF EXECUTIVE'S REPORT

Bob Lawson

Japan and the Internet are now in place to support growth

Operational review

The performance during the last year has been influenced by the widely reported economic uncertainties in many of the markets in which the Group operates. This was most evident in the UK, but looking beyond UK trading, the Group strategy continues to be developed and delivered. Good progress was achieved in Continental Europe combined with the successful launch of RS in Japan.

Much development and geographic expansion has been undertaken within the **Internet Trading Channel**. The UK site (rswww.com) has continued to be the primary development vehicle and substantial functionality has been added in response to customer feedback. Strong growth has been achieved in customer visits and orders placed, but the surprise is the customer demand for information, with the Internet site now supplying many times more product data sheets than traditional channels. The UK site has won the Revolution Award for technical excellence and was runner-up to Dell in the Financial Times Internet Business Competition. Whilst much is written about Internet technologies, it is vital to recognise the importance of excellent fulfilment capabilities to match the 'front end' used by the customer, and it is this combination that provides the Group with a market leading Internet capability. Alongside the UK development, local Internet trading sites with less functionality are now available in most Continental European markets. In summary, these Internet activities have exceeded our expectations in this, the first full year of trading activity.

Members of the Internet trading team

As in the past, two members of the Group Executive Committee report directly to shareholders and this year Grant Rabey and Rob Smethers review their responsibilities, which are for Grant the UK, Germany and Information Systems and for Rob the Small Business Group.

Whilst Grant provides the commentary on the **UK**, I would like to mention some key points. The continued strength of Sterling and the pressure that this kept on those of our customers that export, supply exporters or compete with imports made the UK market challenging.

	FINANCIAL YEAR	
RS UK	**99**	**98**
	£415.1m	
	-2.6%	
	£426.9m	
	-3.3%	
	£133.4m	
	31.2%	

RS achieved sales in the UK of £415.1m, a decline of 2.6% (adjusted for trading days), reflecting the annualised decline of industrial production of 1.4%. Although this was disappointing, our research indicates that RS UK has continued to strengthen its market position. It is, therefore, well placed to benefit from an upturn in customer activity. Investment in the product range and customer service has continued, with new customers continuing to be attracted. Management attention to cost and efficiency measures has improved contribution margins to 31.2% from 30.5%, which is the highest ever and underlines the fundamental strength of the RS model in our most developed market.

Across the **Rest of Europe** the Group achieved sales of £166.6m, a growth of 19.1% (at constant exchange rates and day adjusted). Contribution increased 31.9% to £26.9m, giving a contribution margin of 16.1% compared to 14.7% last

RS Rest of Europe	FINANCIAL YEAR 99	98
	£166.6m	
	19.1%	
	£26.9m	
	16.1%	

year. This demonstrates the progress of the Group strategy in Europe. During the second half of the year, however, sales growth rates declined compared to the first half as the major Continental European economies came under pressure.

Radiospares Composants in **France** increased sales by 17.8% (adjusted), further strengthening its leading position in that market. The range offered increased to 68,000 from 61,000 a year ago, reflecting the continued broadening of the technologies offered, and continues to be welcomed by customers. The active customer base grew by 10.9%. The expanded facility at Beauvais has been fully operational for the year and is now providing the efficiencies to contribute to improvements in margins.

RS **Germany** grew sales by 20.8% (adjusted) with the product offer increased by 8.3% to 65,000 and the customer base by about 12%. Investment has continued in the German marketing activities and in the infrastructure to support growth. Contribution margins in Germany improved during the year.

In spite of sluggish economic conditions, **Italian** sales increased by 12.2% (adjusted). The product offer is similar in breadth to that in France. Italy has been a successful pilot to launch cross border fulfilment. This requires the centralisation of slow moving products from Milan into Nuneaton and then the direct shipment of orders for such products from Nuneaton to the Italian customer. Orders for fast moving products are fulfilled from Milan. This has enabled overall improvement in service to customers, an improvement in stock efficiency, and has extended the life of the Milan warehouse. Consequently, cross border fulfilment has also been extended to France and will be introduced into Germany.

In aggregate, the **smaller markets of Europe** continue to offer an opportunity the size of Germany and they are building on support from larger neighbours whilst making their own necessary investments. These businesses form part of Rob's Small Business Group, which is managed separately so that investment is commensurate with the size, capabilities and requirements of the business. Benelux benefited from investment in its first full year as an owned operation, whilst the other businesses performed well.

The Group's businesses in the **Rest of the World** mainly comprise those in **Asia**. The Asian markets were dominated by economic turmoil, though during the second half more stability returned allowing a recovery from the depressed first half. The recovery was not sufficient, however, to reverse the contribution decline in the Rest of the World segment. Sales of £27.7m were 9.2% down as reported, but 1.9% up at constant exchange rates and day adjusted. Contribution of £2.5m was £1.9m down on the previous year, though the second half registered a £0.8m improvement.

RS Rest of World	FINANCIAL YEAR 99	98
	£27.7m	
	1.9%	
	£2.5m	
	9.0%	

Within **South Asia**, sales for the year declined 2.4% (adjusted), but improvements were seen as the second half progressed. The warehouse opened last April in Singapore is now fully operational and is supporting Malaysia and the new business in the Philippines which began trading in November.

North Asia grew by 10.6% (adjusted), which reflects strong growth in Mainland China offset by a decline in Hong Kong. Again the market improved in the latter part of the year. The first stage of radically improving the information systems infrastructure in this region is nearing completion. North Asia is migrating to an integrated enterprise system that will support growth and improve controls. The primary focus remains on Mainland China where the prospects are exciting. This region again made a loss as investments continued to be made to support growth.

Australia had a flat sales year, reflecting difficult Asian economies, but improved its profit contribution as a result of higher efficiencies.

The major event of the year was the successful launch of RS in **Japan** on 1 March. This project has been delivered exactly to time and at the planned cost. The product range was the largest launch offer that the Group has undertaken at 25,000 products, of which 5,000 are specific to that

RS Japan	FINANCIAL YEAR 99	98
	(£4.0m)	

market. A Japanese catalogue, CD-ROM and basic Internet site supported the launch. The initial response from the market has been positive and it is a pleasure to report that the average order value is around £80 (that is, about the Group average). This demonstrates the attraction of the 'RS model' to our inaugural Japanese customers. Whilst this review can only reflect a few weeks trading, we remain confident that the Group will create the leading high service offer for Japanese engineers. →

RS opens in Japan – new colleagues at the launch

Ready for advances in electronic trading

→ **Pact** had another good year with sales growth of 17.0% (adjusted), and a similar increase in profits. Strong product lines and extensive customer relationships again paid off in an uncertain retail economy.

Pact	FINANCIAL YEAR 99	98
	£55.9m	
	17.0%	
	£2.8m	
	5.0%	

Groupwide Processes

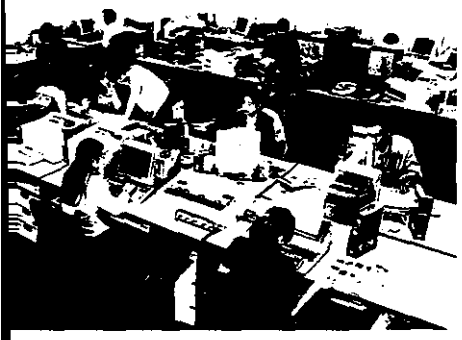
The organisation changes enacted two years ago are now beginning to demonstrate their value. The product ranges in Europe are converging to reflect customers' needs and provide the required efficiencies as the overall range continues to grow. Whilst we have regularly reported the product offer by market, the total Group offer now managed is over 160,000 products. The value of stocks within the Group has held steady despite the substantial investment in stocking Japan, which indicates the growing effectiveness of supply chain management.

Grant comments specifically on the Information Systems process where there is substantial investment underway. Year 2000 compliance remains the priority. Some 70% of this activity, as measured by expenditure, is now successfully completed and there is a well defined programme of fixing and testing for the remaining systems in the first half of the year. Information Systems will remain a major investment area for the Group, particularly in the management of databases.

A further area of continuing investment is human resources, with the launch of a pilot during the year to identify and also recruit junior managers of high potential and to invest in them so as to accelerate their progress to senior management roles. A Groupwide communication initiative has also been introduced to provide effective communication of Group objectives and strategy and the individual's role in their successful implementation.

Last year the decision was taken to create the International Management Centre for the Group, based at Oxford. Many managers are now in temporary premises on-site and the permanent building will be ready for occupation in Autumn 1999. On completion this will co-locate the Group Board and Group Executive Committee together with the leadership and key support elements of all the Groupwide processes.

The Groupwide processes are a critical component of the Group's capability to provide differentiated and outstanding services to customers at an economic cost. These are now developing all aspects of the Group's offer from effective customer communications to leading edge fulfilment capabilities



The busy RS Singapore telesales office

Grant Rabey

RS UK

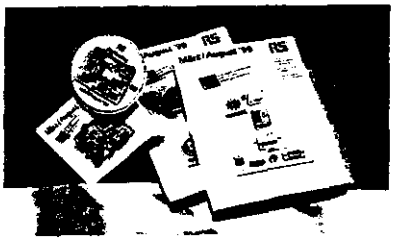
Last year, tough trading conditions prevailed in the UK, and RS UK was unable completely to counter these now well known trends in the economy, particularly as they impacted our larger exporting customers. The business continued to maintain its product coverage across all of its core business areas as the product range grew to 110,000 products.

In keeping with the business climate and with the need to stay in touch with customers during difficult times, the business broadened its direct marketing activities. Special mailers were sent to customers to support the new catalogue launches, and in September a unique 'mid-term' new product programme proved to be particularly successful.

The UK's marketing programme also targeted special customer segments, for example the oil industry and Information Technology, and promoted its core range of services to thousands more customers. As the financial year closed, the business moved to realign its field sales, in-house telesales and trade counter teams to achieve a tighter geographic focus and closer customer contact. Finally, although the overall customer base did not grow, the UK's customer acquisition programme successfully identified and converted over 12,500 new customers in the year in smaller businesses and more service related sectors.

Across the business, staff worked to improve quality levels and operational effectiveness. In the customer call centre, training programmes were aimed at improving customers' perceptions of the friendly helpfulness of RS staff. While in Operations, order picking and assembly staff worked to achieve a further reduction in errors. Within Operations, workload re-balancing is also underway in order to capture the benefits in operational effectiveness from the more productive Nuneaton site.

Finally, the recent rapid evolution of electronic trading and the opportunities that this will present to a clearly positioned direct marketeer in the business to business sector, such as RS, represent to us one of the most exciting times in recent memory. In keeping with this strategic potential, the business has continued to invest in developing and recruiting the leadership and commercial skills required to successfully take forward RS in the UK.



The German RS catalogues and CD-ROM

RS Germany

Last year, RS Germany achieved strong growth in both its sales and its profit contribution. This was accomplished in an economy that began to slow, particularly towards the end of the period. The business remains focused upon widening its market coverage of active customers and in line with this, this year also experienced another strong sales increase from its new customers.

As in prior years, there was an increase in the product range as the catalogue grew to offer over 65,000 products. The German direct marketing programme supported both the catalogue and specific areas of high potential, such as mechanical products and health and safety.

On the customer side, direct marketing activities were targeted on increasing our customers' re-ordering frequencies and at new customer acquisition. The field sales and telesales teams were also enlarged during the year to reflect the move towards developing closer relationships with our larger customers.

Service remains a prime source of competitive advantage in Germany and during the year the German team not only increased product availability levels, but also order assembly and despatch quality levels. Further investment is underway to continue this progress.

As befitting a rapidly growing business, the management team was strengthened with the addition of new managers, most notably in the areas of Operations and Information Systems. The move to trading through the German internet web site was also accompanied by the recruitment of new direct marketing skills.

Information Systems

The main role of Information Systems is to provide the technical capabilities and systems process skills to support the information needs of the business. In fulfilling this role IS works in three areas: technical infrastructure; major programme delivery; and developing the IS process itself.

Over the past year IS has initiated a thorough review of the Group's technical infrastructure. The creation of a more integrated Group organisation structure and our own expectations regarding future advances in electronic trading and communications has led us to conclude there will be significant increases in the demands placed upon the business' technical backbone. Accordingly, a major phased investment programme is underway to significantly improve our network facilities. In parallel, a similarly phased programme has begun to upgrade our desktop-working environment. The aim of this change is to ensure that we equip all our key people with the tools they will need to be effective in the information economy.

Turning to our work in supporting and delivering major systems changes, as with most firms we have been devoting resources to achieving a capability to trade in euros, and secondly, to ensuring that our information systems are Year 2000 compliant.

In addition to this work of converting existing systems, we have successfully implemented a number of major projects. After a thorough review of the alternatives, we decided to invest in the JD Edwards enterprise business system for Japan. Following on from this successful introduction in Japan, work is currently underway to also convert our Asian systems starting with Hong Kong.

Within Europe, project teams have been working on systems to improve our service levels to customers. These changes have enabled us to widen the range of available products and have, moreover, allowed us to reduce the levels of stock held locally in each of our major European businesses.

Looking internally, in the past year, we have successfully completed the conversion of our major European financial systems to SAP.

Finally, looking ahead, it is clear that our current customer information and order fulfilment systems will remain in the forefront of our systems planning. So, aside from ensuring that our existing systems are both compliant and creating immediate added value returns, senior IS management is actively involved in a business led review and prioritisation of future strategic systems investment.

Maximising the effectiveness of our investment in existing systems and infrastructure and preparing to meet the future demands of the organisation clearly calls for the highest levels of competence within the IS process itself. In recognition of this and of the importance that the leadership of the process will play in achieving the right levels, this past →

Are there any boundaries to the RS service?

Not in this case, where a customer's stricken production was restored.

Many opportunities lie ahead

→ *year has seen a significant change in the IS management team. There has been an influx of new skills, capabilities and relevant experience, and this has been coupled with the introduction of new performance measures and targets. In the coming months this strengthening will continue across the process and will take place in conjunction with a particular emphasis on recruiting and building our application and data management skills.*

The IS process will continue to play its part in the Group's success by doing three things extremely well: by ensuring the right technical 'building blocks' are in place; by delivering successful change programmes; and by providing an outstanding IS management contribution to the Group's strategic development.

Rob Smethers

Small Business Group

The Small Business Group comprises the smaller RS businesses in Europe, South Africa, India and Chile, the RS third-party distributors and direct UK Exports. In addition, it includes Pact, the leading distributor of electrical accessories and appliances to UK retailers.

Whilst the commercial activities of these operations are in some ways diverse, they have many common attributes and all operate to the high service level model within their markets, whilst retaining the entrepreneurial culture necessary for accelerated growth. The RS operations in Ireland, Denmark, Spain, Benelux and South Africa are the result of acquiring third-party distributors in these markets and then investing in them to grow the RS core. Benelux was purchased last year and opened as an RS business in April 1998 and is now becoming well established. Austria was part of an earlier acquisition whilst Chile and Pact were start-ups. India is a joint venture.

Sales and contribution growth were achieved despite difficult economic conditions in some markets. Pact had another good year, further consolidating its market position against competition, despite weakness in UK consumer demand over the winter months.

In the Small Business Group, there are many excellent teams in the operations and a distributor network that is committed to growing the RS market in the areas they serve. Future intentions are for further growth as RS penetration is increased in all markets through leveraging off the existing infrastructure. Markets that are currently not served by either an existing business or distributor will continue to be monitored for emerging opportunities.

I look forward to the challenge of delivering continued sales growth and sustainable profit improvement as we enter the new Millennium.

Our man in Singapore saves the day

Border controls, man without passport, vital equipment needed to save the day. It all sounded like the plot of a James Bond movie, but turned out to be just another day for Andy Lim, the Telesales Supervisor at RS Singapore.

It seemed like just another call at RS in Kuala Lumpur. "Have you two ICs, stock number 2411862?" asked Danny Wong, a regular customer; "I need them desperately, one of my production machines has broken and brought part of our factory to a standstill."

"I am so sorry, we've run out of stock of this item," came the reply, "but we do have them at our Trade Counter in Singapore." Faced with an output shortage, Danny decided to drive the 7½ hours from his company, BI Technologies in Pahang, Malaysia, to the Trade Counter in Singapore.

After 5½ hours, Danny arrived at the Malaysia/Singapore border to discover he had forgotten his passport. He called Andy Lim: "I'm on my way to pick up my urgent order, I'm at the border, but unfortunately I've forgotten my passport."

Danny was delighted when Andy offered to save the day. "Tell me where you are and I'll deliver it to you myself."

"Thank you very much," replied Danny, "I'll wait at the Pan Pacific Hotel."

When Andy walked into the hotel, he was greeted like a long-lost brother. "Mr Wong?" asked Andy. "Yes," replied Danny; "Mr Lim?". "Thank you so much," said Danny, "you've really solved a problem for me."

Allied acquisition and overview

Whilst overall the year has not been one of exciting sales or profit progress, we have remained focused and resolute in developing the capabilities required to deliver our strategy. Much progress is evident as demonstrated by the sales growth and improvement in contribution margins in Continental Europe and in asset management across the Group. The Internet activities will continue to be a principal strategic thrust and the Japanese launch completes our easterly geographic development.

The agreed conditional acquisition of Allied Electronics Inc from Avnet Inc now balances our Eastern advances with an established base in the United States. Allied is an excellent business that we have known for some time and has a proven management team.

Allied is based in Fort Worth, Texas, a recognised hub for efficient fulfilment throughout the United States. The company has 71 offices in the US and customers are served in similar ways to RS. Allied's catalogue and CD-ROM are recognised as being the engineer's reference for electronic components. Over time, Allied will evolve into being the North American arm of the Electrocomponents network, enabling the Group to occupy the unique market position of providing a truly global infrastructure to serve customers and support suppliers.

We look forward to their contribution to our future strategic development. The acquisition fully meets our criteria in being a business we know and of a size that is manageable. Following completion on 2 July we will work closely with Allied to realise the opportunities available to the enlarged Group.

Alongside the acquisition of Allied is the creation of a strategic alliance with Avnet. The objective of the alliance is to take advantage of the core competence of each of our companies. In the case of Electrocomponents, this is the ability to serve a large community of technical end-users with low volume requirements via a catalogue, CD-ROM or the Internet, and to despatch its entire range of products immediately from stock.

Avnet's competence is the ability to provide a wide range of electronic components and related products in higher volumes. Avnet will support Electrocomponents using the proven supply chain method of Avnet IMS (Integrated Material Services) operation. This will include planning, purchasing and delivering the products to Electrocomponents in such a way as to ensure maximum efficiency in the overall chain.

This alliance, which is a first in our industry, will ensure that the partnership can offer to customers a seamless combination of high service, multi-technology development and maintenance requirements together with the world's leading provider and supply chain manager for volume components. Our combined view is that this alliance will provide a new standard of value to customers of the components industry and provide to each of the partners a differentiated and sustainable market position.

The year ahead has the unique uncertainty of the Year 2000 transition. We are confident that our own preparations will be to the required level and we continue to develop the necessary support for customers during a period of abnormal uncertainty.

In the medium term, we believe economic conditions will improve and each of our operations is resourced to capitalise on such opportunities. As the past year has demonstrated, our management is effective in tough climates and this is an indicator of the inherent strength and depth of the team. Hence, it is with confidence that we face the challenges of the Millennium year and our continuing commitment to creating sustainable premium value for our shareholders.

Bob Lawson

Bob Lawson
Chief Executive

FINANCIAL REVIEW

Jeff Hewitt

A year of continued and confident investment

Picking and packing in the RS Singapore distribution centre

Turnover, profits and earnings

Group turnover increased by 2.2% to £677.1m, but operating profit declined 5.7% to £106.0m, profit before tax 4.9% to £112.4m and earnings per share 5.8% to 17.8p. The strengthening of Sterling had a negative translation effect on our reported results. At constant exchange rates, sales growth would have been 2.6% (and the increase £2.6m higher) and profit before tax would have declined 4.7% (and the decline £0.3m less). Adjusting sales for the number of trading days in the year gives an underlying growth of 3.2%.

The gross margin for the year was 49.5%, the same as last year, which was encouraging given the trading pressures and again demonstrates the importance of customer service.

The decline in operating margin to 15.7% from 17.0% reflected difficult trading in a number of areas as well as significant investments in the development of the Group. Most notable were the substantial pre-launch costs of Japan, which increased to £4.0m from £0.8m. Japan has been separated out as a geographic segment to provide visibility of our progress. After the start-up cost of £2.5m last year, investment in the Internet Trading Channel remained at an appropriately high level of £1.6m. As the Internet channel has been trading for the full year, its operating costs have been included in the UK geographic segment where the benefits are also reported. The planned build up of Groupwide process costs to £55.6m from £49.6m also reduced operating margin. The expenditure on Year 2000 issues (an increase to £2.0m from £0.6m) and the costs of being ready to trade in euros (£0.6m from £0.3m) are included in these figures. Information Systems remained the area of largest process spend, at 45% of the total. Following the build up of process capability and cost through the past year, expenditures should not increase so significantly in the future, whilst the benefits from having these capabilities will be realised.

Net interest income increased 10.3% to £6.4m due to higher average cash balances and higher interest rates, though interest rates declined as the year progressed. The tax rate of 32.0% was higher than the 31.6% of last year due to higher profitability in Europe outside the UK. The profit for the year amounted to £76.4m, down 5.2% and earnings per share declined 5.8% to 17.8p from 18.9p. With the recommended final dividend of 7.25p per share, dividends rose 16.7% to 10.5p, which were covered 1.7 times by earnings. This historically low level of earnings cover reflects the profit impact of the strategic investments currently being made by the Group as well as the currently difficult trading environment.

	FINANCIAL YEAR	
Key Figures	**99**	**98**
	£677.1m	
	£106.0m	
	£6.4m	
	£112.4m	
	17.8p	
	10.5p	
Key Statistics	**99**	**98**
	49.5%	
	15.7%	
	32.0%	
	31.8%	
Growth %	**99**	**98**
	2.2%	
	3.2%	
	-5.7%	
	10.3%	
	-5.2%	
	-5.8%	
	16.7%	

Cash Flow	FINANCIAL YEAR 99	98
	(£1.2m)	
	£0.2m	
	(£2.6m)	
	(£3.5m)	
	(£18.3m)	
	£69.3m	
	£120.6m	

Key Statistics	99	98
	2.6	
	55.1	
	42.3	

Cash flow and balance sheet

Free cash flow for the year increased 65.4% to £69.3m from £41.9m.

Working capital cash outflows amounted to £3.6m compared to £29.4m last year. Cash outflow on stock was £1.2m compared to £20.5m last year as tighter controls were applied without compromising service levels. The stock turn was maintained at 2.6 times despite the build up of stocks in Japan to support the launch at the year-end. Debtors recorded an inflow of £0.2m compared with an outflow of £23.6m last year on improved debtor days. Conversely there was a cash outflow on creditors of £2.6m compared to an inflow of £14.7m as creditor balances declined following tighter management of stocks.

Capital expenditures were lower than last year (£18.3m compared to £28.1m), and lower than anticipated earlier in the year, due to the deferral of facilities investments in Germany and Italy. The use of cross border fulfilment will allow more intensive use of the existing capacity in these countries. After higher tax and dividend payments, the increase in net funds was £32.7m, giving year-end net funds of £120.6m.

Year 2000

Programmes have been underway for 2 years to manage the Year 2000 transition and the Group has been an active participant in industry forums that share best practice. The Group has also worked with the Department of Trade and Industry in the UK to broaden the awareness of Year 2000 issues among smaller businesses and is a signatory to Pledge 2000.

In common with other organisations, the Year 2000 problem could affect the Group's information systems, product offer and facilities. Management has been working through specific programmes over the past year, partly assisted by external consultants. This activity has been accorded the highest priority. There is a full time project manager and team coordinating the Year 2000 programme that reports monthly to a Steering Committee (which is chaired by the Group Finance Director and which includes an external advisor), to the Group Executive Committee and to the Board.

Based on an audit of systems and applications, a timetable was established to replace or upgrade non-compliant elements, where possible as part of larger system investment programmes. Year 2000 specific costs are, therefore, small relative to our total information

Singapore rapidly becoming the hub for ASEAN countries

systems expenditure, which amounts to about £25m annually. Good progress has been made on the 'fix and test' schedule with testing of all major systems anticipated to be complete by the end of the first half of the coming year. Likewise work on the Group's facilities infrastructure has also made satisfactory progress with final completion scheduled for September. As part of the overall planning procedure, care has been taken to build in sufficient contingencies such that there is low probability that any single unforeseen systems or facilities failure would materially damage the Group as a whole.

During the year, the worldwide product offer was examined for potential non-compliant products in

Barcelona – a very successful example of our European Trade Counter network

conjunction with suppliers and assurances obtained. The review indicated that the level of non-compliance in the product offer was very small. Catalogues issued in the second half of the year have made reference to such compliance and products that are not confirmed as compliant are no longer offered for sale. As part of the Group's customer services, procedures have also been established for replying to the numerous enquiries from customers. Though the Group is not dependent on any single customer, the general readiness of our customers is an important concern and so efforts have been made to understand their level of preparedness. Though 'fix and test' activities are widespread, many companies have yet to finalise their operating activity over the Millennium period and so this also implies some uncertainty for the Group's level of trading over this period.

Suppliers of services such as key utilities, telecommunications, couriers, systems support, printers and banks have been contacted to establish their preparedness. Their responses have been, and will continue to be, used to establish Group plans and contingencies.

The revenue expenditure on Year 2000 activities was £2.0m in the year, up from £0.6m the previous year, and leaving an estimated £1m to be spent mainly in the first half of this year. Of the £3.6m identifiable costs, over 70% have now been spent and a large part is on consultants and contractors. These costs exclude ancillary costs, such as the time of users spent in testing systems. The →

→ remaining spend relates mainly to the completion of systems fixing and testing programmes noted above.

The Group will provide the service and support required by customers over the Millennium period and this is likely to incur higher operating costs not included in the amounts noted above. The specific level of service will differ by market and research is continuing into customer requirements. To avoid disruption of service due to product supplies, plans are well advanced to bring forward stock purchases ahead of the Millennium period. This stock building will increase stocks held at the end of the first half. Otherwise the Group will limit discretionary projects over critical periods in the Millennium operating regime so that resources can be made available to meet unforeseen needs.

Though the Group has taken substantial steps to ameliorate Year 2000 risks, there can be no assurance that the impact of Year 2000 issues on the Group's normal business operations will not be significant and could have a material effect on the Group. Statements on the implications of Year 2000 are forward looking and are based on numerous assumptions made by the Group and by third parties and this inherently limits the assurances that can be given.

The Group is well placed for Year 2000

Radiospares Composants are leading the way in France

RS Germany's Frankfurt warehouse also supplies Austria and eastern Europe

Euro conversion

Through a separate, specific project team and Steering Committee the Group has developed a euro conversion policy which provided for our being able to trade with customers in euros from its introduction. This has been achieved, but as expected the demand for conversion has been slow to develop after the initial burst and is running at low levels in the major European markets. Direct expenditure has amounted to about £0.6m in the past year on top of £0.3m in the prior year. Limited expenditure is planned for the coming year, but work is continuing on the implications of the euro for product pricing policies and communications and on supplier contracts. The Group's euro currency flows are now being actively managed as a currency bloc.

The impact of a future change in base currencies on the Group is being planned and will require further significant systems investment.

Treasury

Treasury continued to operate as a centralised service centre. Its ethos remained the managed reduction of financial risk. Over the course of the year Treasury management was strengthened. Treasury policies were updated in light of the growing international complexity of the Group and the Board approved revisions. Implementation is through the Treasury Committee.

Volatile exchange rates remained a feature of the past year. Apart from the strength of Sterling and its impact on UK manufacturing, the Asian crisis demonstrated dramatically how unforeseen currency movements do impact real economies. The euro has also posed further uncertainties since its introduction. The Group's main source of foreign currency transaction risk arises because the Group's purchases in currencies other than Sterling are much smaller in total, and in different currencies, to the proportion of its sales that are made from fixed priced, non-Sterling catalogues. Substantial hedging of the purchases over catalogue lives was once again implemented in order to shelter gross margins. The hedges are enacted through forward currency contracts entered into by Group Treasury on the trading projections provided by local businesses. Note 25 to the Accounts summarises the Group's hedging positions at the year-end. In addition, supplier negotiations were continued during the past year such that more purchases were sourced in underlying currencies, as against Sterling, so as to allow increased netting of currency flows internally. Where hedges have not been practicable, for example in certain Asian currencies at times of high volatility, then local prices have been adjusted periodically to reflect significant currency movements.

Cash flows relating to material transactions in currencies other than the functional currency of the local business are hedged when committed.

Foreign currency translation exposure is not explicitly hedged, but local currency debt is being used where economic and fiscally efficient

in the financing of subsidiaries and this provides a partial hedge. Should the financial structure of the Group change materially then Treasury guidelines are in place for reviewing the impact of translation exposures. Note 25 to the Accounts summarises the financial assets and liabilities by major currencies at the year-end.

The financing structures of local subsidiaries are being reviewed for overall financial and fiscal effectiveness, as these operations become larger and more profitable. Programmes for modifying structures commenced in the past year. Transfer pricing policies have also been reviewed and updated in line with best practice so as to facilitate the Group's international growth.

At the year-end the Group had net funds of £120.6m which was largely in Sterling and in short term deposits. Group policy on investment management is to maximise the return on net funds subject always to the security of the principal and the liquidity of the Group. The Group has established policies to identify counterparties of suitable credit worthiness and has procedures to ensure that only these parties are used, that exposure limits are set and that these limits are not exceeded. During the year and at the year-end the Group did not make use of any financial instrument for the purpose of hedging changes in interest rates. Note 25 to the Accounts summarises the interest rate profile of deposits at the year-end.

Acquisition of Allied

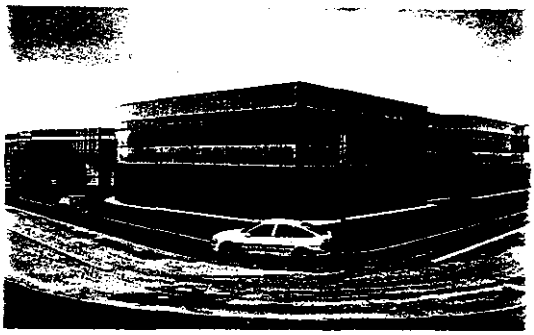
The conditional acquisition of Allied Electronics Inc will be financed by existing cash reserves and by facilities provided by our relationship banks. The post-acquisition balance sheet will be strong and interest cover will be high. The acquisition will be immediately earnings enhancing, before the amortisation of goodwill. Note 18 to the Accounts and the announcement of 8 June 1999 provide the details of the acquisition.

Financial and shareholder returns

Profit before tax on capital employed was 31.8%, down from 37.3% last year due to the revenue investments made in the year and the low interest returns on the Group's net funds. The return on capital remains substantially higher than the Group's cost of capital.

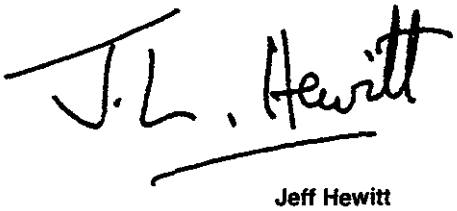
The remarkable consistency of gross margins and average order values across markets continues to reinforce our belief in the transferability of the RS business model. The launch of RS in Japan has in the early trading again demonstrated these parameters. The financial expectations for the development of the Japan business remain as planned.

Our total shareholder return over the year was down 9.9%, driven by the share price decline between the year-ends, which has now been largely recovered. This was below the 6.8% return on the Allshare index, which reflects our trading exposure to the UK manufacturing sector and the costs and risks implicit in our investment strategy.

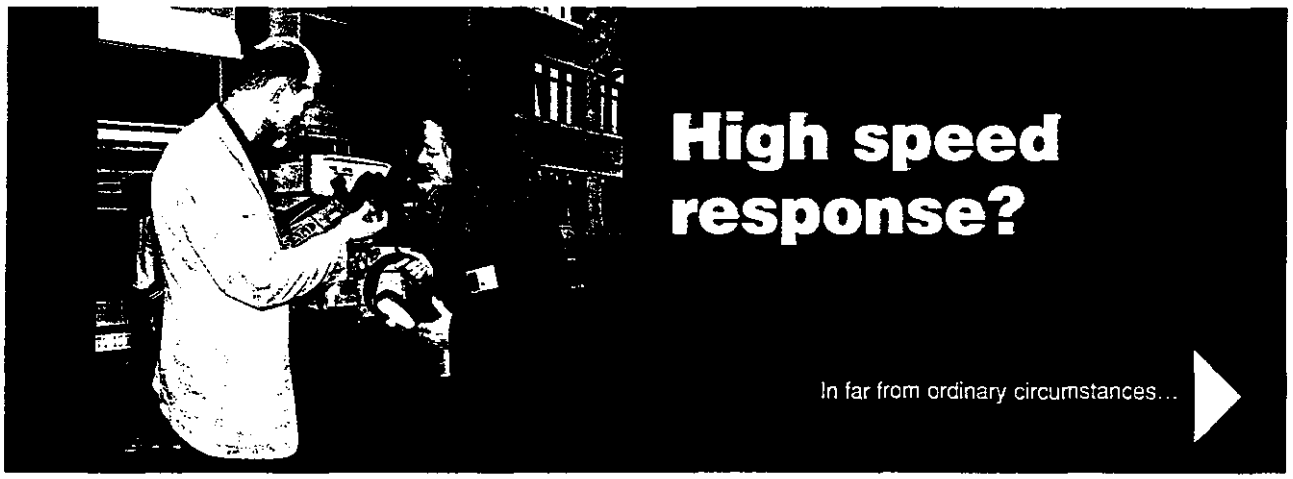


Radiospares Composants at Beauvais, Paris

Achieving and maintaining attractive returns relative to the market over the long term are the primary goals of our strategy. In our selected markets we should realise superior returns over the long term which provides an unusually attractive prospect. The good growth and improving returns in Europe are important pointers, as are the successful launch in Japan and the continued investment in Asia, whilst the opportunities arising from the Internet are exciting.



Jeff Hewitt
Group Finance Director



On-the-ball supplier gets customer back in the game

What is it that motivates?

Frequently, people are spurred on by a challenge, especially to succeed in a difficult situation.

Thursday 11 June was a public holiday in Hessen, Germany, and so most companies were closed. RS had a skeleton staff of 3 in the order processing department.

At about 2.00pm the phone rang.

"This is Klaus Kuka, from Studio and Television Engineering, I need your help,I am in serious trouble and urgently need a part today."

Stephanie Hemmerle, from the order department, explained that the warehouse was not fully operational.

"But I am desperate," explained Klaus; "I have a football match to shoot, which is being broadcast live, and my camera will not work without it."

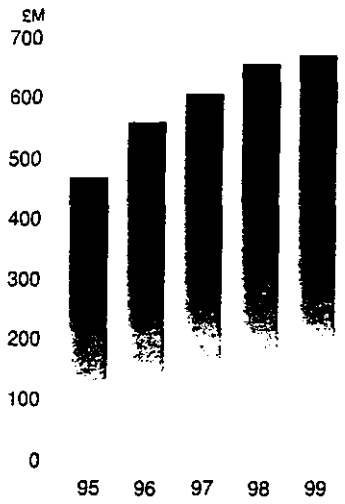
"Leave it to me," replied Stephanie, who accessed the warehouse, located the part, picked and packed it herself, and arranged for a courier to deliver it immediately to Studio and Television Engineering.

"I cannot thank you enough," said Klaus, when he telephoned later; "it arrived on time and I am so pleased. Apart from the embarrassment of not being able to shoot the game, and letting our client down, we would have lost a considerable amount of money, so you can understand how important it was."

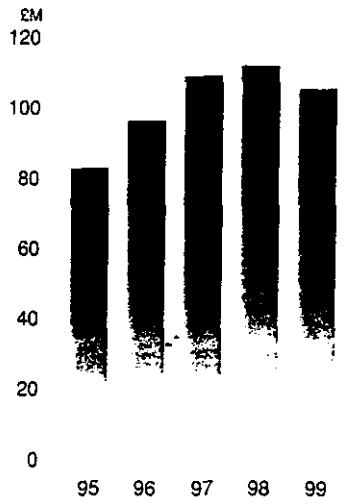
Motivation? The challenge to succeed in a difficult situation, all the more so if a satisfied customer is the end result.

FIVE YEAR HIGHLIGHTS

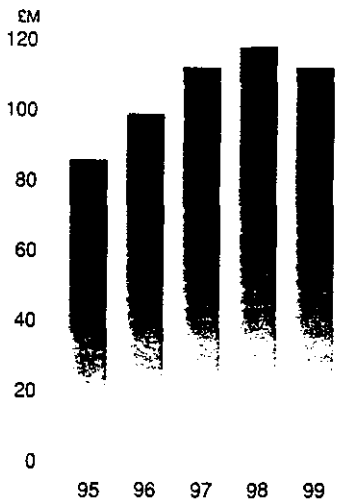
Turnover



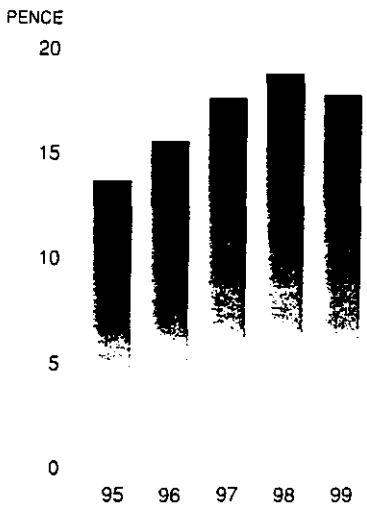
Operating profit



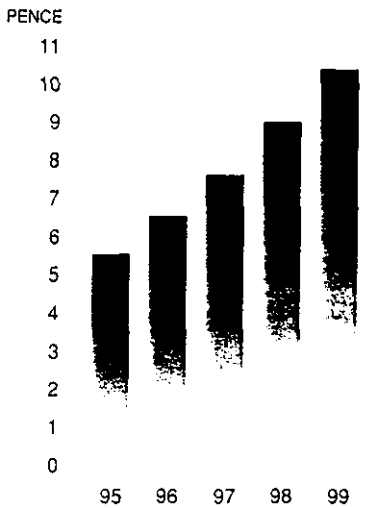
Profit before tax



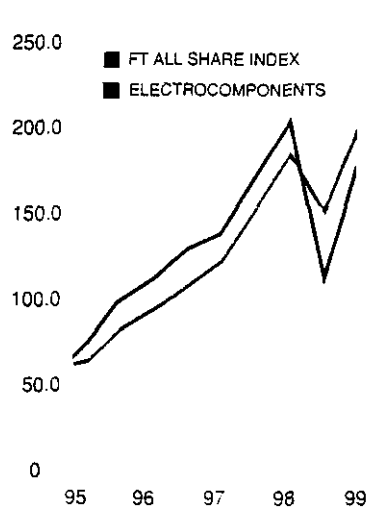
Earnings per share – FRS 3



Dividends per share



Total shareholder returns



DIRECTORS' BIOGRAPHIES

Vision and leadership, focused on sustained growth, worldwide

R C G COTTERILL AMIEE

Non-Executive Chairman

Roy Cotterill, 63, joined as a non-executive Director in April 1994 and became Chairman in July 1994. He is an electrical engineer who spent many years working for the General Electric Company plc outside the United Kingdom. He is currently Chairman of Wassall plc and Vocalis Group plc.

C D (Chairman of Nomination Committee)

R A LAWSON MA MBA

Group Chief Executive

Bob Lawson, 54, joined as Group Managing Director in April 1991 and was appointed Group Chief Executive in April 1992. He is a qualified engineer with a business degree. His career has spanned several United Kingdom and continental groups, including RS Components Limited, where he was Sales Director from 1979 to 1987. Prior to his return to the Group, he spent three years with Vitec Group plc as Managing Director. He is also a non-executive Director of Hays plc.

B C E (Chairman of Group Executive Committee)

J L HEWITT MA FCA MBA

Group Finance Director

Jeff Hewitt, 51, joined as Group Finance Director in November 1996 from Unitech plc, where he held a similar position. He joined Unitech in 1991 from Coats Viyella plc, where he was Group Strategy Director and a Divisional Chairman. Previously he was with The Boston Consulting Group and Arthur Andersen & Co. He is also a non-executive Director of Fulmar plc.

E (Chairman of Treasury Committee)

A – indicates membership of the Audit Committee
B – indicates membership of the Group Executive Committee
C – indicates membership of the Nomination Committee
D – indicates membership of the Remuneration Committee
E – indicates membership of the Treasury Committee

From left to right

F D LENNERTZ Dr. -Ing.
Dieter Lennertz, 62, joined as a non-executive Director in 1995. He is a telecommunications engineer who spent three years in the Netherlands and fourteen years in France, working for the European Space Agency. In 1983 he joined Telenorma GmbH in Frankfurt/Main. He was Chief Executive for six years with this telecom company, which in 1995 became part of Bosch Telecom GmbH. He is currently a member of the Bosch-Telecom supervisory board and Chairman or member of other supervisory or advisory boards. He is a lecturer at the European Business School in Germany. *(C. D)*

D S WINTERBOTTOM FCA FCT FRSA
David Winterbottom, 62, joined as a non-executive Director in 1990. Formerly Chief Executive of Evode Group plc, Mr Winterbottom is Chairman of TJ Hughes plc, Hill & Smith Holdings plc, CPL Industries Ltd, Wightlink Group Ltd and Target Express Ltd. Additionally, he is Chairman of a number of other institutionally owned companies. *(A. C. D. Chairman of Audit Committee)*

R HORROCKS CBE CIMgt FIMI FRSA
Ray Horrocks, 69, joined as non-executive Director in 1986. He is currently Chairman of Chloride Group plc. Prior to this he was an Executive Director of British Leyland. *(Senior Non-Executive. A. C. D)*

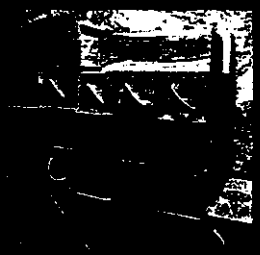
R E ARTUS CBE MA FIMR
Ronald Artus, 67, joined as a non-executive Director in 1990. He was previously Chief Investment Manager of Prudential Corporation plc. He is an independent board member and Deputy Chairman of the Securities and Futures Authority, a Director of the General Electric Company plc, and member of the Financial Law Panel, established by the Bank of England and the Corporation of London. *(A. C. D. Chairman of Remuneration Committee)*

N J TEMPLE
Nick Temple, 51, joined as a non-executive Director in 1996. He is the Chief Executive of Armature Ltd. He was the Chairman of IBM Ltd and Vice President of Marketing for IBM Europe, Middle East and Africa. *(A. C. D)*

C CARFORA FCIS
Carmelina Carfora, 35, joined the Company in 1989 from BTR plc. She was appointed Company Secretary in September 1996.

What has the production of a world-famous wine to do with printed circuit boards, cables and conductors?

Vintage service meets pressing deadline



The famous Chablis labels and crates

Order fulfilment goes like this: customer knows what they want, supplier delivers it to them. But what if the customer is inventing something and not certain of their requirements? Well, this is where a good relationship between customer and supplier really pays dividends. Emmanuel Mullard, the Sales Manager at Radiospares in Beauvais, France recently received a call from such a customer.

"Hello," said Julien Brocard, "I'm hoping you can help me. I'm looking for some parts I need to help me build a device which will measure the sugar content of my wine after fermentation."

It may sound like a request from a DIY wine maker, but nothing could have been further from the truth; Julien and his father, Jean-Marc, are from the wine domain Brocard, which produces the world-famous Chablis. As well as being responsible for wine production, Julien is also a qualified electronics engineer. What he was planning would, if successful, have a considerable time-saving benefit on production. Julien had become familiar with Radiospares in his student days and when he needed help, it was Radiospares he instinctively turned to.

"Of course, we all know Chablis well," said Emmanuel, "and I was pleased to be able to help."

"The first job," he said, "was deciding what was needed and then, as it was wanted for the fast-approaching vintage, getting it to Julien in the fastest possible time."

The initial stages of the invention had taken longer than expected and there were only 3 days left to finish the project. Having decided which cables, connectors, printed circuit boards and other components were needed, Emmanuel decided to deliver them personally that day.

"I was very pleased with the outcome," said Julien; "not only were the products exactly what I needed, but I had them in time to finish my project before the vintage."

GEC MEMBERS' BIOGRAPHIES

Strength in depth

Group Executive Committee

From top of page

R B BUTLER FCIS
Richard Butler, 39, joined the Group as Company Secretary. He is now responsible for Asia, Media Publishing and Group Human Resources.

R G SMETHERS FCA
Rob Smethers, 49, is currently responsible for the Small Business Group. He joined the Group as Financial Controller in 1976. Other roles held by him have been in operational management in RS and strategic development in Electrocomponents.

I MASON MBA
Ian Mason, 37, is responsible for Business Development, RS Japan and the Internet Trading Channel. He has been with the Group since 1995 and was previously employed with The Boston Consulting Group.

R A LAWSON MA MBA

G F RABEY BComm MA
Grant Rabey, 53, joined the Group in 1986 as Commercial Director for RS. In 1991 he was appointed Managing Director of RS UK. He is currently responsible for RS UK, RS Germany and Group Information Systems.

J VAUGHAN
Jerry Vaughan, 43, was General Manager of Verospeed, France from its launch in 1986. In 1990 the Verospeed Group was acquired, with the French company changing its name to Radiospares Composants. In January 1996 he was appointed to the GEC and has responsibility for Product Management and Supply Chain for the Group, together with Radiospares Composants and RS Italy.

J L HEWITT MA FCA MBA

REPORT OF THE DIRECTORS

The Directors present their report on the affairs of the Group together with the audited accounts for the year ended 31 March 1999.

PRINCIPAL ACTIVITY

The principal activity of the Group is the distribution of electronic, electrical and industrial supplies and services to industrial and commercial customers and retailers, through its channels in the British Isles, continental Europe, Asia and the rest of the world. Significant events during the year are detailed in the Chairman's statement, the Group Chief Executive's report and the financial review on pages 6 to 19.

RESULTS AND DIVIDENDS

Results for the year are set out in the profit and loss account on page 34 and an analysis of turnover, profit and net assets by activity is shown in note 3 on pages 39 and 40. The Directors recommend a final dividend of 7.25p per ordinary share, to be paid, if approved, on 9 August 1999 which, together with the interim dividend of 3.25p per share paid in January, amounts to 10.5p for the year (1998 9p). In view of the Group's cash position and recent changes in Advance Corporation Tax, the Board has decided not to offer a scrip dividend alternative in respect of the final dividend for the year ended 31 March 1999. However, the Company will offer to its shareholders a dividend reinvestment plan ("DRIP") as a way to reinvest their dividends in the Company in future. Full details are given in a separate circular accompanying this report.

CORPORATE GOVERNANCE

In June 1998, the London Stock Exchange published its Principles of Good Governance and Code of Best Practice (the Combined Code) which became effective in respect of accounting periods ending on or after 31 December 1998. Section 1 of the Combined Code establishes fourteen principles of good governance within four areas: Directors; Remuneration of Directors; Relations with Shareholders; and Accountability and Audit. The following four sections explain how these principles have been applied.

DIRECTORS

The Board comprises the non-executive Chairman, two executive Directors and five non-executive Directors. Biographical details of the Directors at the date of this report are set out on pages 22 and 23 together with details of their membership of Board Committees.

Directors' interests in the shares of the Company are shown on pages 28 and 29.

In the opinion of the Board, all the non-executive Directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their judgement.

Regular Board meetings are held monthly except in January and August and the Board is responsible for overall Group strategy, acquisition and disposal policies and the approval of major investment proposals. The Board discusses and formulates strategic plans, approves annual budgets and reviews Group and subsidiary performance. Comprehensive and relevant Board papers are provided to Directors well in advance of meetings. On a regular basis the Board visits operating units both in the UK and overseas and receives presentations from Group Executive Committee members and their senior staff.

Retirement by rotation

At the Annual General Meeting in July 1998, the Company adopted amendments to the provisions relating to retirement by rotation in its Articles of Association. The effect of these amendments was that Directors are required to submit themselves for re-election at least every three years.

Mr Artus and Mr Horrocks retire by rotation at the forthcoming Annual General Meeting in accordance with Article 90.1 of the Company's Articles of Association. Mr Artus and Mr Horrocks have indicated that they will not be seeking re-election.

In addition, in accordance with Article 89.2 of the Company's Articles of Association, which requires each of the Directors to retire by rotation at least once every three years, Dr Lennertz retires by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting. Dr Lennertz does not have a service contract.

Mr Winterbottom will be appointed senior non-executive Director following the retirement of Mr Horrocks at the forthcoming Annual General Meeting.

Board committees

The Board has a number of standing committees consisting of certain Directors and senior managers to which specific responsibilities have been delegated and for which written terms of reference have been agreed.

THE GROUP EXECUTIVE COMMITTEE consists of the executive Directors and the five senior executives shown on page 25. The Committee meets at least monthly and manages the day to day operations of the Group.

THE AUDIT COMMITTEE consists of four non-executive Directors. It meets three times a year and more frequently if required. The Committee assists the Board in its duties regarding financial statements and reviews the operation of internal financial controls with the internal and external auditors. It also reviews the scope and results of the audit with the external auditors and the results of the work of the internal operational auditors.

THE TREASURY COMMITTEE consists of the executive Directors, the Group Treasurer, the Group Controller and the Company Secretary and sets detailed treasury policy for the Group within guidelines established by the Board. It meets as required.

THE REMUNERATION COMMITTEE consists of all the non-executive Directors. It meets as required and is responsible for all aspects of the remuneration of executive Directors. Details of the Company's remuneration policy and of the remuneration of each Director are set out below.

THE NOMINATION COMMITTEE consists of the Group Chief Executive and all the non-executive Directors. The Committee meets as required and recommends to the Board candidates for appointment as executive and non-executive Directors of the Company.

REMUNERATION OF DIRECTORS

The determination of the remuneration, benefits and employment conditions of the executive Directors and the other members of the Group Executive Committee has been delegated to the Remuneration Committee. The remuneration of the Chairman and other non-executive Directors is determined by the Board. The Committee adheres to the principles and provisions of the Combined Code and, in preparing this section of the Report the Board has followed the provisions of Schedule B of the Combined Code. The Committee utilises the services of two leading firms of compensation and benefit consultants to ensure that its aims are met.

Remuneration policy

The Committee acts within the terms of a statement of remuneration policy which has been approved by the Board.

The main objective of that policy is to offer remuneration at a level which is appropriate to attract, retain and properly motivate executives of the highest calibre. The policy sets a guideline for the relationship between the three main elements of remuneration: basic salary; annual bonus; and long-term incentives. At 'on-target' performance level, the fixed element of basic salary is designed to represent around two-thirds of total remuneration (ignoring other benefits) but the proportion represented by the variable elements should increase significantly as performance rises above target. A central part of the variable element is the Long-term Incentive Plan ("LTIP") (see below) in which total shareholder return (share price growth plus reinvested dividends) is the key factor which determines whether and to what extent participants benefit. The design of that plan and the annual bonus plan are such as to ensure that total rewards are not excessive.

Executive Directors and other Group Executive Committee members also receive pension and other benefits (such as a company car and private health insurance). The following paragraphs and tables contain more detailed information on remuneration policies and provision.

Basic salary

In determining salary levels, the Committee takes into account the median for similar job functions in UK industrial and service companies and in other companies of a similar size in terms of market capitalisation. However, allowance is made for experience, performance and competitive pressure and regard is also taken of salary levels throughout the Group at the time of the review.

Annual bonus

The annual bonus plan is designed to provide executives with a share of the increased profit before tax of the Group above a threshold determined by the Committee and to reflect the performance of the Group Executive Committee. Bonuses are paid in cash as a percentage of basic salary (not exceeding 50% in normal circumstances), the same percentage being paid to all executive Directors and Group Executive Committee members. The Remuneration Committee has discretion to increase the bonus payable to any participant in special circumstances, but not beyond the 50% ceiling. The annual bonus is not pensionable.

Long-term incentives

Under the Long-term Incentive Plan, the executive Directors and other Group Executive Committee members are granted an annual award which carries a deferred right to receive a number of ordinary shares in the Company with a market value not exceeding their annual rate of basic salary. Each award is subject to a performance target, set when the award is granted, which determines whether and to what extent the participant will receive shares at the end of a period of three years.

For awards granted in June 1998, the performance target was based on a three year comparison of the Company's total shareholder return with that of the companies listed between 50th and 149th by market capitalisation on the London Stock Exchange on the five days prior to the date of the award. An award may be released in full if the Company is ranked in the top 20% of such comparator group. A ranking at one place above the median level will allow 20% of the award to be released with pro-rata vesting between those points. No award will be released if the Company is ranked on or below the median. In addition, no part of the award will be released unless the Company's increase in earnings per share exceeds the rate of inflation over the same period.

Executive Directors and other Group Executive Committee members hold outstanding options under the Company's 1988 Executive Share Option Scheme, but the Committee has determined that in any one year an executive should not receive an award under both that scheme and the Long-term Incentive Plan. They continue to participate in the Company's Savings Related Share Option Scheme which is open to all employees.

Directors' remuneration

	Salary 1999 £	Salary 1998 £	**Benefits 1999** £	Benefits 1998 £	**Total 1999** £	Total 1998 £
Emoluments of the Chairman						
R C G Cotterill	**100,000**	97,917	**12,651**	12,229	**112,651**	110,146
Emoluments of the executive Directors						
J L Hewitt (1) (4)	**243,454**	219,105	**59,611**	25,168	**303,065**	244,273
R A Lawson (2) (4)	**347,500**	320,000	**280,842**	11,901	**628,342**	331,901
R C Tomkinson (3)	**-**	45,996	**-**	3,008	**-**	49,004
TOTALS	**690,954**	683,018	**353,104**	52,306	**1,044,058**	735,324
Fees of non-executive Directors						
R E Artus (5)					**28,000**	27,750
R Horrocks					**25,000**	25,750
F D Lennertz					**33,000**	32,750
N Temple					**25,000**	24,750
D S Winterbottom (5)					**28,000**	26,625
TOTALS					**1,183,058**	823,945

(1) Mr Hewitt's benefits include the reimbursement of £47,424 under the Group's relocation policy.

(2) Mr Lawson's benefits include the reimbursement of £272,286 under the Group's relocation policy. This was approved by the Remuneration Committee.

(3) Mr Tomkinson's remuneration is for the period to 25 July 1997. He retired as an employee of the Company on 31 August 1997.

(4) No annual bonus was paid to any Director in 1998 or 1999.

(5) Mr Artus and Mr Winterbottom, as chairmen of the Remuneration and Audit Committees respectively, received an additional fee of £3,000 per annum which is included in the above figures.

Directors' interests in the Long-term Incentive Plan

	Date of grant	Shares
J L Hewitt	30 June 1997	44,179
	30 June 1998	45,144
R A Lawson	28 June 1996	36,220
	30 June 1997	70,686
	30 June 1998	71,821

An award granted to Mr Lawson on 30 June 1995 vested, in accordance with the criteria set for awards, on 16 July 1998 in respect of 32,130 shares. Mr Lawson exercised his right to acquire those shares for nil consideration on 4 September 1998, on which date the closing mid-market price of a share was 350p.

Directors' interests in share options

	Scheme	Date of grant	Shares	Option price
J L Hewitt	Savings Related Scheme	25 July 1997	5,029	343.0p
R A Lawson	1988 Executive Option Scheme	26 July 1991	67,760	125.1p
		1 Dec 1992	22,200	165.6p
		28 July 1995	67,600	306.1p
	Savings Related Scheme	25 July 1997	5,029	343.0p

No options lapsed or were granted or exercised during the year ended 31 March 1999. Exercise periods for the above options are given in note 30 on page 52.

On 9 September 1997 Mr Lawson exercised options under the Electrocomponents Savings Related Share Option Schemes over 16,666 shares at an option price of 112.5p. The closing mid-market price on that day was 491.5p.

The closing market price of shares on 31 March 1999 was 465p and the range during the year was between 311p and 601p.

Pension

Executive Directors and other members of the Group Executive Committee are members of the Electrocomponents Group Pension Scheme, which provides defined benefits on retirement. All scheme benefits are subject to Inland Revenue limits. Where such limitation is due to the 'earnings cap', individual arrangements are used to increase pension and death benefits to the level that would otherwise have applied. Such an arrangement has been established for Mr Lawson on an unfunded basis. The Remuneration Committee decided that, in future, only funded benefits will be provided in these circumstances. Consequently, a funded arrangement has been established for Mr Hewitt.

Normal retirement age for all members of the Group Executive Committee is 60. The Electrocomponents Group Pension Scheme is a funded pension arrangement providing a pension on retirement of up to two-thirds of pensionable earnings, or the 'earnings cap' if lower. No actuarial reduction is applied to pensions payable if retirement is from age 55 or later. For death before retirement, a capital sum equal to four times basic salary is payable together with a spouse's pension of two-thirds of the member's prospective pension at age 60. For death in retirement, a spouse's pension of two-thirds of the member's pre-commutation pension is payable. Pensions in payment or in deferment are guaranteed to increase annually in February by the lesser of 5% or the increase in the RPI. Additional increases are payable at the discretion of the Company and the Trustee.

Directors' pension benefits

Increases in the accrued pension to which executive Directors have become entitled during the year:

	Age	Years of pensionable service (1)	Additional pension accrued in year (2)	Accrued pension 31/3/99 (3)	Contributions by Directors 1999
J L Hewitt	51	2.3	1,480	3,407	4,380
R A Lawson	54	11.5	17,624	133,208	13,140

(1) Pensionable service for Mr Lawson includes credit for transfers received.

(2) Pensions are payable from age 60 (or on earlier retirement). The increase in accrued pension is after removing the effects of inflation.

(3) Accrued pensions for Mr Hewitt and Mr Lawson as at 31 March 1998 were £1,867 and £112,000 respectively.

(4) Additional contributions of £37,684 were paid into a funded unapproved arrangement for Mr Hewitt (1998 – £29,911).

Service contracts

Mr Lawson joined the Company on a three year rolling contract which has now been reduced to a two year rolling contract. In light of past performance, length of service and the Group's policy and practice to ensure mitigation in the case of severance, two years' notice is deemed appropriate for Mr Lawson. Mr Hewitt and all other members of the Group Executive Committee have one year rolling contracts.

External appointments

The Company encourages its executive Directors and other members of the Group Executive Committee to take up non-executive positions on other boards. The policy established permits one such appointment on the condition that any fees are remitted to the Company.

Directors' interests in shares

The beneficial interests of the Directors in the shares of the Company are set out in the table below. The Directors have no non-beneficial interests.

	31 March 1998	Scrip dividends	LTIP award exercised	Purchases	Sales	**31 March 1999**
R E Artus	21,133	246	-	5,000	-	**26,379**
R C G Cotterill	19,692	229	-	1,500	-	**21,421**
J L Hewitt	762	-	-	-	-	**762**
R Horrocks	5,000	-	-	-	-	**5,000**
R A Lawson	223,820	2,608	32,130	-	-	**258,558**
D Lennertz	4,040	47	-	2,360	-	**6,447**
N J Temple	7,651	89	-	3,000	-	**10,740**
D S Winterbottom	2,111	25	-	-	-	**2,136**

As at 31 March 1999 the Electrocomponents Qualifying Employee Share Ownership Trust ("QUEST") and the Electrocomponents Employee Trust ("EET") (together the "Trusts") held 1,000,000 and 86,320 shares respectively. Because the executive Directors are potential beneficiaries of the Trusts they are treated for Company Law purposes as being interested in the shares held by the Trusts.

There have been no changes in the beneficial interests of the Directors in the shares of the Company between 1 April and 8 June 1999.

RELATIONS WITH SHAREHOLDERS

Directors and senior executives have frequent discussions with institutional shareholders on a range of issues affecting the Group's performance which include meetings following the announcement of the annual and interim results.

All shareholders, including private investors, have an opportunity at the Annual General Meeting to participate in discussions with the Board on matters relating to the Group's operation and performance. The Company seeks to ensure that the Directors and Chairmen of the relevant Board Committees are available to answer questions at the Annual General Meeting.

ACCOUNTABILITY & AUDIT

In its financial reporting to shareholders and other interested parties, by means of annual and interim results and periodic statements, the Board aims to present a balanced and understandable assessment of the Group's position and prospects.

The responsibility statement of the Directors is set out at the end of this Report. A statement by the Auditors about their reporting responsibilities is set out on page 33.

Internal financial controls

Internal financial controls represent the systems employed by the Directors to enable them to discharge their responsibility for financial matters. Those responsibilities are noted on page 32. Such systems can provide only reasonable and not absolute assurance against material misstatement or loss. The main control elements are described below.

Clear terms of reference set out the duties of the Board and its committees, with delegation of operating responsibility through the Group Executive Committee to management in all locations. Operating company controls are detailed in Group Finance and Group Treasury manuals that specify the controls necessary in identified areas of key financial risk. Smaller Group companies are supported by Group and divisional specialists in key areas.

Financial reporting systems are comprehensive and include weekly, monthly and annual reporting cycles. Monthly management accounts together with updated forecasts are prepared by all operating companies and Groupwide processes. These are compared against previous forecasts and the annual budget which is approved by the Directors. Specific reporting systems cover treasury operations, major investment projects and legal and insurance activities, which are reviewed by the Board and its committees on a regular basis.

The Group has a team of internal operational auditors which has an annually agreed audit programme approved by the Audit Committee. The team reports regularly to the Audit Committee on the results of audits performed and reviews self-certification internal control questionnaires completed by operating management.

The Audit Committee has independent access to the internal and external auditors.

The Board and the Audit Committee have reviewed the effectiveness of the Group's system of internal financial control during the period covered by this report.

Pending guidance being published by the Institute of Chartered Accountants in England and Wales on reporting on the wider aspects of internal controls, and as permitted by the London Stock Exchange, the Board have reported solely on internal financial controls pursuant to the guidance for directors on internal controls and financial reporting that was issued by the Rutteman Working Group in December 1994.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

NON-COMPLIANCE WITH THE COMBINED CODE

During the year ended 31 March 1999, the Company complied with the provisions set out in Section 1 of the Combined Code save as follows:

- A standing Nomination Committee was not established until December 1998. Prior to this, in the event that the Board decided to recruit a new Director, a Nomination Committee would be established for that purpose, whose membership would include a majority of non-executive Directors and the Chairman.

- The Board does not consider it appropriate to reduce the notice period of Mr Lawson, the Group Chief Executive, to one year, for the reasons explained on page 29 of this Report.

HEALTH AND SAFETY

Training programmes and regular internal auditing have continued to maintain a high level of awareness of, and commitment to, best health and safety practice. The Group's health and safety record continues to improve as demonstrated by the results of our audit programme and the attainment by RS Components Limited of a commendation in the transport, distribution and service sector of the RoSPA Occupational Health & Safety awards.

GROUP ENVIRONMENTAL POLICY

The Group has formulated an environmental policy. The Group Executive Committee has primary responsibility for such policy. The primary objectives of the policy are to reduce the detrimental environmental impact of the Group's business activities and to participate in the international commitment to achieving sustainable development.

In order to achieve these objectives, the Group is committed to:

- Meeting and where practicable, exceeding all statutory requirements restricting the use of substances that might present a risk to the environment. For example, the elimination of Ozone depleting CFCs from our products has already been achieved;
- Identifying and controlling, through cost effective procedures, those activities of the business, including waste management, energy usage and product selection, that could have an adverse environmental impact;
- Openly communicating matters related to the environmental impact of our business with interested parties including customers and suppliers. Staff shall be informed of their importance in achieving compliance with this policy through the cascade of information throughout the Group;
- Demonstrating environmental consciousness through informed and cost effective selection of products and the minimisation of resource consumption;
- Ensuring that the environmental policy is published and made readily available to all interested parties.

The Company ethos of continuous improvement shall be supported by an environmental management plan. The plan shall be regularly monitored to ensure that objectives are met and true added value for the environment and the business is achieved.

GROUP EMPLOYMENT POLICIES

The Group values highly the commitment of its employees and has maintained its practice of communicating business developments to them wherever practicable. Regular staff appraisals and consultations take place with individuals and the employees' representatives. The Group remains supportive of the employment and advancement of disabled persons.

INVESTMENT IN SUBSIDIARIES

The Group has acquired no new subsidiaries during the year.

POST BALANCE SHEET EVENT – ACQUISITION OF ALLIED ELECTRONICS INC

On 8 June 1999 the Group announced that it has conditionally agreed to acquire Allied Electronics Inc from Avnet Inc for a total consideration of $380m (£237m). Completion of the acquisition is scheduled for 2 July 1999 but is conditional, inter alia, upon clearance under the Hart-Scott-Rodino Antitrust Improvements Act 1976. Details of the acquisition are given in the Chief Executive's Report on pages 10 to 15, in Note 18 to the Accounts on page 18 and in the announcement.

RELATED PARTY TRANSACTION

In the year ended 31 March 1999 Pact International Limited made sales of £3.9m to T J Hughes plc, of which Mr Winterbottom is Chairman. These sales were made on an arm's length basis and within normal trading terms.

PAYMENT TO SUPPLIERS

The Group agrees terms and conditions for its business transactions with suppliers. Payment is then made according to these terms, subject to the supplier fulfilling its obligations. The Company has no trade creditors. Supplier payment days for the Group outstanding at 31 March 1999 represent 42 days (1998 45 days) of average purchases.

CAPITAL GAINS TAX

For Capital Gains Tax purposes the valuation of the Company's 10p ordinary shares at 5th April 1982 was 40p.

SUBSTANTIAL SHAREHOLDERS

As at 1 June 1999 the following substantial shareholdings had been notified to the Company:

	Number of shares	Percentage held
Schroder Investment Management Limited	57,998,733	13.5%
The Prudential Corporation group of companies	27,493,827	6.4%
Co-operative Insurance Society Limited	14,330,986	3.3%
Threadneedle Investment Managers Limited	13,876,985	3.2%

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

SHARE CAPITAL

Full details of share options and shares issued under the terms of the Company's share schemes can be found in note 30 to the accounts on page 52. Details of shares issued in lieu of cash dividends can be found in note 10 on page 43.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group has made no political contributions during the year. Charitable contributions amounted to £49,997 (1998 £39,432).

ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting, which will be held at 12 noon on 23 July 1999 at the Lanesborough Hotel, 1 Lanesborough Place, London, is set out on pages 57 and 58.

In addition to conducting the ordinary business, the following special business will be considered:

RENEWAL OF DIRECTORS' AUTHORITY TO ALLOT SHARES. This resolution will permit your Directors until 22 July 2004 to allot up to 64,670,429 ordinary shares (approximately 15% of the issued share capital as at 3 June 1999). The Directors have no present intention of exercising this authority other than in connection with the exercise of options.

RENEWAL OF DIRECTORS' AUTHORITY TO DISAPPLY PRE-EMPTION RIGHTS: This resolution will authorise your Directors until 22 July 2004 to issue shares for cash without pre-emption rights applying, by way of offer to existing shareholders and pursuant to employee share schemes, up to the maximum amount of the allotment authority above and otherwise up to 21,556,809 ordinary shares (being approximately 5% of the issued share capital as at 8 June 1999).

RENEWAL OF DIRECTORS' AUTHORITY TO PURCHASE OWN SHARES: This resolution will authorise market purchases of up to 21,556,809 ordinary shares (being approximately 5% of the issued share capital as at 3 June 1999), subject to a maximum price of 105% of the average of the market values of the shares for the five business days preceding any purchase and a minimum price of 10p per share. The Directors will only exercise this authority when satisfied it is in the best interests of shareholders and any purchase will have a beneficial impact on earnings per share, having first considered other investment opportunities open to the Company.

ALTERATION TO ARTICLES OF ASSOCIATION: Shareholders are being asked to approve an alteration to the Articles of Association whereby the limit on the aggregate amount of Directors' fees is increased from £250,000 to £350,000 per annum.

By order of the Board
Carmelina Carfora
Secretary
8 June 1999

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Company law requires the Directors 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 and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They 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.

REPORT OF THE AUDITORS TO THE MEMBERS OF ELECTROCOMPONENTS PLC

We have audited the financial statements on pages 34 to 54.

We have also examined the amounts disclosed relating to emoluments, shares and share options, Long-term Incentive Plan interests and Directors' pension entitlements which form part of the Report of the Directors on pages 27 to 29.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report, including as described on page 32, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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. 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 with the Company is not disclosed.

We review whether the statements on pages 26 to 30 reflect the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if they do not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 Group'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 as at 31 March 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants, Registered Auditor
London 8 June 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1999

	Note	1999 Total £m	1998 Total £m
Turnover	3	**677.1**	662.4
Cost of sales		**(341.8)**	(334.3)
Gross profit		**335.3**	328.1
Distribution and marketing expenses		**(220.4)**	(203.4)
Administration expenses		**(8.9)**	(12.3)
Operating profit	3	**106.0**	112.4
Net interest receivable	4	**6.4**	5.8
Profit on ordinary activities before taxation	5	**112.4**	118.2
Taxation on profit on ordinary activities	8	**(36.0)**	(37.3)
Profit on ordinary activities after taxation		**76.4**	80.9
Minority equity interest		**-**	(0.3)
Profit for the financial year	9	**76.4**	80.6
Dividend	10	**(45.1)**	(38.6)
Retained profit for the financial year		**31.3**	42.0
Earnings per share			
Basic	11	**17.8p**	18.9p
Diluted	11	**17.7p**	18.7p

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1999 £m	1998 £m
Profit for the financial year	**76.4**	80.6
Translation differences	**1.7**	(7.4)
Total recognised gains and losses relating to the year	**78.1**	73.2

All profits and losses shown are stated at historical cost and relate entirely to continuing operations.

The statement of movements on Group reserves is at note 31

The notes on pages 39 to 54 form part of these accounts

As at 31 March 1999	Note	GROUP 1999 £m	GROUP 1998 £m	COMPANY 1999 £m	COMPANY 1998 £m
Fixed assets					
Tangible fixed assets	12	**129.7**	130.0	**38.8**	36.0
Investments	14	**0.3**	0.4	**148.2**	133.9
		130.0	130.4	**187.0**	169.9
Current assets					
Stocks	19	**129.5**	126.5	**-**	-
Debtors	20	**145.1**	142.1	**11.2**	15.8
Investments	21	**91.2**	63.9	**91.0**	60.6
Cash at bank and in hand		**33.3**	29.9	**19.5**	20.8
		399.1	362.4	**121.7**	97.2
Creditors: amounts falling due within one year	22	**(157.2)**	(163.8)	**(88.1)**	(47.7)
Net current assets		**241.9**	198.6	**33.6**	49.5
Total assets less current liabilities		**371.9**	329.0	**220.6**	219.4
Creditors: amounts falling due after more than one year	23	**(6.5)**	(6.7)	**(0.9)**	(1.0)
Provisions for liabilities and charges	26	**(12.1)**	(5.8)	**(2.1)**	(1.9)
		353.3	316.5	**217.6**	216.5
Capital and reserves					
Called-up share capital	29	**43.1**	42.8	**43.1**	42.8
Share premium account	31	**22.7**	13.5	**22.7**	13.5
Profit and loss account	31	**287.5**	260.2	**151.8**	160.2
Equity shareholders' funds	32	**353.3**	316.5	**217.6**	216.5

These accounts were approved by the Board of Directors on 8 June 1999 and signed on its behalf by:

J L Hewitt
Group Finance Director

The notes on pages 39 to 54 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 1999	Note	1999 £m	1998 £m
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		**106.0**	112.4
Depreciation and amortisation		**19.9**	18.3
(Increase) in stocks		**(1.2)**	(20.5)
Decrease (increase) in debtors		**0.2**	(23.6)
(Decrease) increase in creditors		**(2.6)**	14.7
Continuing operations		**122.3**	101.3
Costs in respect of closures		**(0.3)**	(0.2)
Net cash inflow from operating activities		**122.0**	101.1

CASH FLOW STATEMENT			
Net cash inflow from operating activities		**122.0**	101.1
Returns on investments and servicing of finance	33	**5.9**	5.8
Taxation		**(40.3)**	(36.9)
Capital expenditure and financial investment	33	**(18.3)**	(28.1)
Free cash flow		**69.3**	41.9
Acquisitions		**-**	(8.5)
Equity dividends paid	10	**(39.0)**	(29.9)
Cash inflow before use of liquid resources and financing		**30.3**	3.5
Management of liquid resources	33	**(27.1)**	(5.7)
Financing			
Shares	33	**2.3**	1.5
Loans	33	**1.3**	1.1
Increase in cash in the year		**6.8**	0.4

Reconciliation of net cash flow to movement in net funds		
Increase in cash	**6.8**	0.4
Management of liquid resources	**27.1**	5.7
Financing - loans	**(1.3)**	(1.1)
Change in net funds relating to cash flows	**32.6**	5.0
Translation differences	**0.1**	(1.6)
Movement in net funds for the year	**32.7**	3.4
Net funds at 1 April 1998	**87.9**	84.5
Net funds at 31 March 1999 34	**120.6**	87.9

The notes on pages 39 to 54 form part of these accounts.

Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

All subsidiary accounts are made up to 31 March and are included in the consolidated accounts. The Group accounts comprise the consolidated accounts of the Company and its subsidiaries. A separate profit and loss account is not presented in respect of the Company, as provided by section 230 of the Companies Act 1985.

Goodwill

Goodwill arising on acquisitions prior to 31 March 1998 has been written off against reserves. On disposal of a business, the gain or loss on disposal includes that goodwill previously written off on acquisition. Following the introduction of FRS10 in the year ended 31 March 1999, the Group chose not to restate goodwill that had been eliminated against reserves. Goodwill arising after 1 April 1999 will be amortised over its expected useful life. No goodwill arose in the year to 31 March 1999.

Investments in subsidiary undertakings

Investments in subsidiary undertakings including long term loans are included in the balance sheet of the Company at the lower of cost and the expected recoverable amount. Any impairment is recognised in the Profit and Loss Account.

Investments in associated undertakings

Investments in undertakings, other than subsidiary undertakings, in which the Group has a substantial interest held for the long term and over which it exerts significant influence are treated as associated undertakings.

Translation of foreign currencies

Overseas companies' profits, losses and cash flows are translated at average exchange rates for the year, and assets and liabilities at rates ruling at the balance sheet date. Exchange differences arising on foreign currency net investments are taken to reserves. Exchange differences arising in the normal course of trading are taken to the profit and loss account.

Turnover

Turnover represents the sales of goods and services and is stated net of sales taxes.

Operating expense classification

Cost of sales comprises the cost of goods delivered to customers.

Distribution and marketing expenses include all operating company expenses, together with Supply Chain, Product Management, Media Publishing, Facilities and Information Systems process expenses.

Administration expenses comprise Business Development, Strategic Planning, Finance, Legal and Human Resources process expenses, together with the expenses of the Board and Executive Committee and the pre-trading expenses of new operations.

Pre-trading expenses

Pre-trading expenses of new operations are written off as incurred.

Pension costs

The Group operates a pension scheme providing benefits based on final pensionable pay for all eligible employees in the United Kingdom. The scheme is administered by a corporate trustee and the funds are independent of the Group's finances. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the working lives with the Group of those employees who are in the scheme. There are no significant prepayments or provisions included in the balance sheet.

PRINCIPAL ACCOUNTING POLICIES

Long-term Incentive Plan

The consolidated profit and loss account includes the income and administration expenses of the Long-term Incentive Plan, and the consolidated and Company balance sheets include the assets and liabilities of the Plan. Shares in the Company, held by the trust established to administer the Plan, are shown as fixed asset investments. Where awards are made to executives the value of the expected award is amortised on a straight line basis over the period of service of the executives in respect of which the awards are made.

Depreciation

No depreciation has been charged on freehold land. Other assets have been depreciated to residual value, on a straight line basis at the following annual rates:

Freehold buildings	2%
Leasehold premises	term of lease not exceeding 50 years
Warehouse systems	10-20%
Motor vehicles	25%
Mainframe computer equipment	20%
Network computer equipment	33%
Portable computers	50%
Computer software costs	33%
Other office equipment	20%

Software development costs associated with the Internet Trading capacity have been written off as incurred.

Stocks

Stocks are valued at the lower of cost and net realisable value. Work in progress and goods for resale include attributable overheads.

Catalogue costs

Prior to the issue of a catalogue, all related costs incurred are accrued and carried as a prepayment. On the issue of a catalogue, these costs are written off over its useful life, which varies between four months in the UK and 18 months in some less significant markets. Major investments in new catalogue production systems are written off over the period during which the benefits of those investments are anticipated, such period not to exceed three years.

Net funds

Net funds comprise net cash and liquid resources less borrowings. Net cash comprises cash in hand and held with qualifying financial institutions in current accounts or overnight deposits net of overdrafts with qualifying financial institutions. Liquid resources include government securities and term deposits with qualifying financial institutions and are classified as investments under current assets. Borrowings represent term loans from qualifying financial institutions together with capital instruments classified as liabilities under FRS4.

Deferred taxation

Deferred taxation is provided, using the liability method, at the appropriate rates of taxation on all timing differences to the extent that the relative tax liabilities may crystallise in the foreseeable future. Advance corporation tax recoverable is offset against the deferred taxation provision.

Leases

The Group has no material assets held under finance leases.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the course of the lease period. The benefits of rent free periods and similar incentives are credited to the profit and loss account on a straight line basis over the lease period.

Employee Share Trust

Where shares are issued to the Electrocomponents Qualifying Employee Share Ownership Trust ("QUEST") an amount representing the difference between market value and the option price is transferred from the profit and loss account to the share premium account.

1 Accounting presentation

The segmental analysis figures reflect a change in the geographic analysis of the Group's activities to include the results and net assets of Japan in a separate segment. The £0.8m of costs expensed in the year ended 31 March 1998 were previously shown as administration expenses within Groupwide process costs. There were no material net operating assets in Japan as at 31 March 1998.

Prior to the commencement of trade the costs associated with a new operation are shown as administration costs within Groupwide process costs. Upon commencement of trade the results and net operating assets are shown within the relevant segment. The Internet Trading Channel was launched in March 1998 and subsequent costs (£1.6m) are included as part of the RS UK segment. In the year ended 31 March 1998 the pre-trading expenses (£2.5m) were shown within Groupwide process costs.

2 Analysis of income and expenditure

This analysis reconciles the Companies Act analysis shown in the profit and loss account to the segmental analysis shown below in note 3.

	1999	1998 As restated
	£m	£m
Turnover	**677.1**	662.4
Cost of sales	**(341.8)**	(334.3)
Distribution and marketing expenses	**(173.7)**	(165.3)
Administration expenses	**-**	(0.8)
Contribution	**161.6**	162.0
Distribution and marketing expenses	**(46.7)**	(38.1)
Administration expenses	**(8.9)**	(11.5)
Groupwide process costs	**(55.6)**	(49.6)
Operating profit	**106.0**	112.4

3 Segmental analysis

By class of business

Turnover:	RS Group	**621.2**	614.3
	Pact International	**55.9**	48.1
		677.1	662.4
Operating profit:	RS Group	**158.8**	159.6
	Pact International	**2.8**	2.4
	Contribution	**161.6**	162.0
	Groupwide process costs	**(55.6)**	(49.6)
		106.0	112.4
Net assets:	RS Group	**283.0**	280.8
	Pact International	**19.3**	16.9
	Net operating assets	**302.3**	297.7
	Net funds	**120.6**	87.9
	Unallocated net liabilities	**(69.6)**	(69.1)
		353.3	316.5

Unallocated net liabilities comprise:

Corporation tax	**26.3**	37.0
Proposed dividend	**31.2**	26.6
Provisions for liabilities and charges	**12.1**	5.8
Investments – own shares	**-**	(0.3)
	69.6	69.1

3 Segmental analysis continued

By geographical destination		1999 £m	1998 As restated £m
Turnover:	United Kingdom	**471.0**	477.8
	Rest of Europe	**170.3**	146.2
	Japan	**-**	-
	Rest of World	**35.8**	38.4
		677.1	662.4

RS commenced trading in Japan on 1 March 1999. There were no material sales for the year ended 31 March 1999.

By geographical origin		1999 Total sales £m	1999 Inter-segment sales £m	1999 Turnover £m	1998 Total sales £m	1998 Inter-segment sales* £m	1998 Turnover £m
Turnover:	United Kingdom	**535.9**	**(53.1)**	**482.8**	547.1	(54.2)	492.9
	Rest of Europe	**167.0**	**(0.4)**	**166.6**	139.6	(0.6)	139.0
	Japan	**-**	**-**	**-**	-	-	-
	Rest of World	**27.7**	**-**	**27.7**	30.5	-	30.5
		730.6	**(53.5)**	**677.1**	717.2	(54.8)	662.4

*In 1998 intersegment sales included intercompany sales: within United Kingdom £0.8m, within Rest of Europe £1.8m and within Rest of World £1.0m.

By geographical origin		1999 £m	1998 As restated £m
Operating profit:	United Kingdom	**136.2**	138.0
	Rest of Europe	**26.9**	20.4
	Japan	**(4.0)**	(0.8)
	Rest of World	**2.5**	4.4
	Contribution	**161.6**	162.0
	Groupwide process costs	**(55.6)**	(49.6)
		106.0	112.4

By geographical location

Net assets:	United Kingdom	**224.9**	235.3
	Rest of Europe	**51.5**	47.7
	Japan	**2.7**	-
	Rest of World	**23.2**	14.7
	Net operating assets	**302.3**	297.7
	Net funds	**120.6**	87.9
	Unallocated net liabilities	**(69.6)**	(69.1)
		353.3	316.5

4 Net interest receivable	1999 £m	1998 £m
Interest receivable	**7.1**	6.1
Interest payable on loans and overdrafts	**(0.7)**	(0.3)
	6.4	5.8

5 Profit on ordinary activities before taxation	1999	1998
Profit before taxation is stated after charging/(crediting):	**£m**	£m
Remuneration of the auditors and their associates:		
audit and expenses	**0.4**	0.4
taxation services and advice	**0.3**	0.2
other consultancy services worldwide	**0.2**	0.3
Depreciation	**19.8**	18.5
Amortisation of own shares	**0.3**	-
Amortisation of government grants	**(0.1)**	(0.1)
Operating profit on disposal of plant and machinery	**(0.1)**	(0.1)
Hire of plant and machinery	**1.5**	1.6
Costs of modifying software in respect of the year 2000 incurred within the year	**2.0**	0.6
Costs associated with the introduction of the euro incurred within the year	**0.6**	0.3

The fee in respect of the audit of the Company is £58,500 (1998 £55,000).

6 Employees

Numbers employed	1999	1998
The average number of employees during the year was:		
Management and administration	**310**	285
Distribution and marketing	**3,992**	4,031
	4,302	4,316

2,636 of these staff were employed in the United Kingdom (1998 2,900).

Aggregate employment costs	1999 £m	1998 £m
Wages and salaries	**79.7**	73.9
Social security costs	**9.5**	10.2
Pension costs	**4.6**	4.1
	93.8	88.2

7 Pension Schemes

The funding of the United Kingdom defined benefit scheme is assessed in accordance with the advice of independent actuaries. The pension costs for the year ended 31 March 1999 amounted to £3.1m (1998 £3.3m). The UK Government's Budget in 1997 removed the ability of pension schemes to reclaim the tax credit associated with UK equity dividends. Therefore, the actuarial method of valuation used in the previous valuation (carried out in 1996), which assumed the receipt of gross dividends, is no longer appropriate. As a result, for the most recent valuation (carried out in 1998), it was decided to adopt a market related approach to funding. The projected unit credit method was, however, retained. The assumptions underlying the calculation of the liabilities were derived by reference to the gross redemption yield on long-term gilts in conjunction with a pre-retirement equity enhancement, consistent with market conditions at the time of the valuation.

The principal assumptions applied in the 1998 valuation were, therefore, as follows (the corresponding assumptions used in the 1996 valuation being shown in brackets):

Rate of investment return before retirement		
Future service	7% p.a.	(9% p.a.)
Past service	6.5% p.a.	(9% p.a.)
Rate of investment return after retirement	6% p.a.	(9% p.a.)
Rate of future earnings inflation	5% p.a.	(7% p.a.)
Rate of pension increases	3% p.a.	(5% p.a.)
Rate of dividend growth	n/a	(4.5% p.a.)

At the date of the 1998 valuation, the market value of the assets of the scheme was £137 million, and the actuarial valuation of the assets covered 138% of the benefits that had accrued to the members after allowing for expected future increases in earnings. The excess is being eliminated over the next 15 years, this being the estimated average remaining service lives of the Scheme's current active members, by means of a reduction in the level of employer contributions to the Scheme. The next valuation will be carried out no later than 31 March 2001.

In addition to the UK scheme outlined above pension benefits are provided on a defined contribution basis in Australia, on a defined benefit basis in Germany and Ireland, and via government schemes in France, Italy and Denmark. The cost of these benefits in each international operating company is not material in the context of the Group results.

8 Taxation	**1999**	1998
Taxation on the profit of the Group	**£m**	£m
United Kingdom corporation tax at 31% (1998: 31%)	**31.2**	32.5
United Kingdom deferred taxation	**(0.9)**	(0.4)
	30.3	32.1
Overseas taxation - current	**5.0**	5.0
Overseas taxation - deferred	**0.7**	0.2
	36.0	37.3

The tax is reconciled to a notional 31% (1998: 31%) of profit before tax as follows:

Expected charge	**34.8**	36.6
Overseas tax rates	**1.4**	1.1
Creation of tax losses	**2.0**	1.1
Prior year tax	**(0.4)**	(0.8)
Funding of the QUEST	**(0.6)**	(0.7)
Pre-funding of the QUEST (see note 29)	**(1.2)**	-
	36.0	37.3

The prior year tax credits relate principally to the restatement of UK company deferred tax from 31% to 30% (1998: 33% to 31%).

9 Profit for the financial year	1999 £m	1998 £m
Dealt with in the accounts of the Company	**42.4**	128.3
Retained by subsidiaries	**34.0**	(47.7)
	76.4	80.6

10 Dividends

Profit and loss account

Interim dividend paid – 3.25p (1998 2.8p)	**13.9**	12.0
Final dividend proposed – 7.25p (1998 6.2p)	**31.2**	26.6
	45.1	38.6

Cash flow statement

Final dividend for the year ended 31 March 1998	**25.1**	21.9
Interim dividend for the year ended 31 March 1999	**13.9**	8.0
	39.0	29.9

Scrip dividends

The number of shares upon which shareholders elected to receive the scrip alternative to the cash dividend, the price at which scrip shares were issued, the number of shares so issued and the value of shares issued are shown below:

	Election No. of shares	Price Pence	Issued No. of shares	Scrip value £m
Final dividend for the year ended 31 March 1998	24,502,748	532.0p	285,458	1.5

There was no scrip dividend alternative to the interim dividend for the year ended 31 March 1999.

11 Earnings per share	1999 £m	1998 £m
Earnings – profit for the financial year	**76.4**	80.6
Weighted average number of shares	**429,351,286**	427,030,770
Dilutive effect of share options	**2,557,684**	4,042,054
Diluted weighted average number of shares	**431,908,970**	431,072,824
Basic earnings per share	**17.8p**	18.9p
Diluted earnings per share	**17.7p**	18.7p

12 Tangible fixed assets

	GROUP			COMPANY		
	Land and buildings	Plant and machinery	Total	Land and buildings	Plant and machinery	Total
Cost:	£m	£m	£m	£m	£m	£m
At 1 April 1998	75.6	107.0	182.6	28.2	12.0	40.2
Additions	**4.5**	15.1	19.6	4.3	0.6	4.9
Disposals	(1.8)	(2.3)	(4.1)	(1.0)	(0.2)	(1.2)
Translation differences	0.6	0.9	1.5	-	-	-
At 31 March 1999	**78.9**	**120.7**	**199.6**	**31.5**	**12.4**	**43.9**
Depreciation:						
At 1 April 1998	11.1	41.5	52.6	2.1	2.1	4.2
Charged in the year	1.2	18.6	19.8	0.4	1.7	2.1
Disposals	(1.2)	(1.7)	(2.9)	(1.0)	(0.2)	(1.2)
Translation differences	0.1	0.3	0.4	-	-	-
At 31 March 1999	**11.2**	**58.7**	**69.9**	**1.5**	**3.6**	**5.1**
Net book value:						
At 31 March 1999	**67.7**	**62.0**	**129.7**	**30.0**	**8.8**	**38.8**
At 31 March 1998	64.5	65.5	130.0	26.1	9.9	36.0

	GROUP		COMPANY	
	1999	1998	**1999**	1998
Net book value of land and buildings	**£m**	£m	**£m**	£m
Freehold land	**10.4**	10.4	**8.8**	8.8
Freehold buildings	**46.6**	47.4	**16.4**	16.7
Freehold buildings under construction	**4.8**	0.5	**4.8**	0.5
Long leasehold	**5.4**	5.6	**-**	-
Short leasehold	**0.5**	0.6	**-**	0.1
	67.7	64.5	**30.0**	26.1
Net book value of plant and machinery				
Plant and machinery	**41.2**	44.1	**8.4**	9.5
Computer systems	**11.7**	12.2	**0.1**	0.1
Other office equipment	**5.6**	5.6	**-**	0.1
Motor vehicles	**3.5**	3.6	**0.3**	0.2
	62.0	65.5	**8.8**	9.9

All categories of tangible fixed assets are depreciated except for freehold land and freehold buildings under construction.

13 Capital commitments

Contracted capital expenditure at 31 March, for which no provision has been made in these accounts	**1.5**	5.5	**1.0**	4.7

14 Investments	GROUP		COMPANY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Subsidiary undertakings	**-**	-	**148.2**	133.6
Associated undertakings	**0.3**	0.1	**-**	-
Own shares	**-**	0.3	**-**	0.3
	0.3	0.4	**148.2**	133.9

15 Subsidiary undertakings	Shares	Loans	Total
Cost:	£m	£m	£m
At 1 April 1998	56.0	112.6	168.6
Additions	0.1	14.5	14.6
At 31 March 1999	**56.1**	**127.1**	**183.2**
Provisions:			
At 1 April 1998	19.5	15.5	35.0
Released	-	-	-
At 31 March 1999	**19.5**	**15.5**	**35.0**
Net book value:			
At 31 March 1999	**36.6**	**111.6**	**148.2**
At 31 March 1998	36.5	97.1	133.6

16 Own shares	Cost	Accumulated amortisation	Net
	£m	£m	£m
At 1 April 1998	0.6	(0.3)	0.3
Disposals	(0.3)	0.3	-
Charge for the year	-	(0.3)	(0.3)
At 31 March 1999	**0.3**	**(0.3)**	**-**

In June 1995 a discretionary employee benefit trust, the Electrocomponents Employee Trust ("EET") was established by the Company to facilitate the operation of the Long-term Incentive Plan.

The beneficiaries are present employees of the Company and its subsidiaries. Under the terms of the trust deed the trustees are permitted to acquire the Company's ordinary shares by way of market purchase and allocate them on a discretionary basis to individual beneficiaries. EET is funded by an interest free loan from the Company. During the year no ordinary shares in the Company were purchased by the trustees.

32,130 ordinary shares were transferred to Mr Lawson on 4 September 1998 and during the year 27,932 ordinary shares were transferred to other beneficiaries.

At 31 March 1999, a total of 86,320 (1998 146,382) ordinary shares in the Company were held by EET, all of which were under option to employees for a nominal consideration. The market value of the shares at 31 March 1999 was £401,388.

17 Principal subsidiary undertakings and associated undertakings

	Principal location	Country of incorporation	Percentage of equity held
Mail order of electronic, electrical and mechanical products			
RS Components Limited	Corby	Great Britain	100
RS Components Pty Limited*	Sydney	Australia	100
RS Components GesmbH*	Graz	Austria	100
RS Componentes Electrónicos Limitada	Santiago	Chile	100
RS Components A/S*	Copenhagen	Denmark	100
Radiospares Composants SNC*	Beauvais	France	100
RS Components GmbH*	Frankfurt	Germany	100
Electrocomponents Limited	Kowloon	Hong Kong	100
RS Components Limited*	Kowloon	Hong Kong	100
RS Components & Controls (India) Ltd*	New Delhi	India	50
RS Components SpA*	Milan	Italy	100
RS Components KK*	Yokohama	Japan	100
RS Components Sdn Bhd*	Kuala Lumpar	Malaysia	100
RS Components BV*	Haarlem	Netherlands	100
RS Components Limited*	Auckland	New Zealand	100
Radionics Limited*	Dublin	Republic of Ireland	100
RS Components Pte Limited*	Singapore	Singapore	100
Amidata SA	Madrid	Spain	100
RS Components AB*	Haningey	Sweden	100
Distribution of retail electrical products and accessories			
Pact International Limited	Peterborough	Great Britain	100
Holding and Management Companies			
Electrocomponents UK Limited	Oxford	Great Britain	100
Electrocomponents Inc*	Laytonsville, Md	United States of America	100
Electrocomponents France SARL*	Beauvais	France	100

Except as indicated all of the above are wholly owned. Those companies marked with an asterisk are indirectly owned.
The companies operate within their countries of incorporation. RS Components Limited (UK) exports to over 160 countries and operates branch offices in Japan, South Africa, Taiwan and the Philippines. RS Components Limited also operates under the names of Electromail, Electrospeed, RS Servicepoint, RS Mechanical and RS Health & Safety in the United Kingdom.

* RS Components & Controls (India) Ltd (RSCC) is a joint venture with Controls & Switchgear Company Ltd, a company registered in India. The authorised share capital of this company is Rs20 million, of which Rs18m is issued and owned in equal shares by Electrocomponents UK Limited and its joint venture partner. RS Components Limited supplies product and catalogues to RSCC, while office space and the distribution network are provided by Controls & Switchgear. During the year ended 31 March 1999 the Group made sales of £0.3m to RSCC and supplied catalogues at a cost to RSCC of £0.1m. RSCC is treated in the accounts as an associated undertaking.

A full list of subsidiary companies will be included with the Annual Return.

18 Post balance sheet event – acquisition of Allied Electronics Inc

On 8 June 1999 the Group announced that it has conditionally agreed to acquire Allied Electronics Inc from Avnet Inc for a total consideration of $380m (£237m) payable in cash from borrowing facilities established for the transaction.

The acquisition is conditional, inter alia, upon clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Completion is expected on 2 July 1999.

19 Stocks	GROUP		COMPANY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Raw materials and consumables	**4.8**	4.1	**-**	-
Work in progress	**2.9**	3.9	**-**	-
Finished goods and goods for resale	**121.8**	118.5	**-**	-
	129.5	126.5	**-**	-

20 Debtors				
Trade debtors	**120.2**	121.3	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**8.8**	14.5
Amounts owed by associated undertakings	**0.3**	0.2	**-**	-
Other debtors	**6.1**	3.5	**0.8**	0.1
Corporation tax	**0.1**	0.2	**-**	-
Prepaid catalogue expenses	**12.3**	10.6	**-**	-
Other prepayments and accrued income	**5.0**	5.4	**1.4**	0.8
Amounts falling due within one year	**144.0**	141.2	**11.0**	15.4
Other debtors falling due after more than one year:				
Corporation tax	**0.4**	-	**-**	-
Other debtors	**0.7**	0.9	**0.2**	0.4
	145.1	142.1	**11.2**	15.8

21 Investments – current assets				
Government securities, listed	**0.1**	0.9	**-**	-
Bank deposits	**91.1**	63.0	**91.0**	60.6
	91.2	63.9	**91.0**	60.6

22 Creditors: amounts falling due within one year	GROUP		COMPANY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Bank overdrafts (unsecured)	**0.1**	3.8	**47.0**	5.6
Current instalments of loans (see note 24)	**3.6**	1.8	**-**	0.2
Trade creditors	**62.1**	64.6	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**4.7**	4.6
Corporation tax	**26.6**	37.0	**3.5**	8.6
Other taxation and social security	**9.6**	7.5	**0.1**	0.1
Other creditors	**8.3**	5.7	**0.1**	-
Government grants	**0.1**	0.1	**-**	-
Accruals and deferred income	**15.6**	16.7	**1.5**	2.0
Proposed dividend	**31.2**	26.6	**31.2**	26.6
	157.2	163.8	**88.1**	47.7

23 Creditors: amounts falling due after more than one year				
Loans repayable after more than one year (see note 24)	**0.2**	0.3	**-**	-
Corporation tax	**0.2**	0.2	**-**	-
Other creditors	**3.0**	3.1	**0.9**	1.0
Government grants	**3.1**	3.1	**-**	-
	6.5	6.7	**0.9**	1.0

24 Loans				
Austrian Schilling bank loans	**0.4**	0.4	**-**	-
Hong Kong Dollar bank loans	**-**	1.5	**-**	-
Irish Punt bank loans	**0.8**	-	**-**	-
Japanese Yen bank loans	**2.6**	-	**-**	-
Spanish Peseta promissory notes 1996/99	**-**	0.2	**-**	0.2
	3.8	2.1	**-**	0.2
Amounts falling due within one year	**(3.6)**	(1.8)	**-**	(0.2)
	0.2	0.3	**-**	-
Loans repayable between one and two years	**0.1**	0.1	**-**	-
Loans repayable between two and five years	**0.1**	0.2	**-**	-
	0.2	0.3	**-**	-

The bank loans are at a variable rate of interest and are unsecured.

The promissory notes were at fixed rates between 9.4% and 10.2% and were unsecured.

25 Financial risk management

For the purpose of these disclosures the Group has taken advantage of the exemption from including short term debtors and creditors in its financial assets and liabilities. It has also taken advantage of the exemption for the first accounting period to which FRS 13 applies from providing corresponding amounts. Further information on Treasury and financial management is included in the Financial Review, on pages 18 and 19.

(a) Interest rate risk:

The interest rate profile of the Group's financial assets and liabilities at 31 March 1999 is set out below:

Financial assets	Floating rate financial assets £m	Financial assets on which no interest is payable £m	Total £m
Sterling	112.1	0.2	112.3
Euro	7.9	0.1	8.0
Australian Dollars	1.4	-	1.4
Danish Kroner	1.2	-	1.2
Other	1.9	0.4	2.3
Total financial assets	**124.5**	**0.7**	**125.2**

At 31 March 1999 the financial assets of the Group comprised:

Other debtors due after more than one year	0.7
Investments – current assets	91.2
Cash at bank and in hand	33.3
	125.2

Floating rate financial assets comprise bank deposits, bearing interest at rates fixed in advance for periods ranging from overnight to 12 months by reference to the relevant inter-bank rate, plus current account cash balances, typically bearing nominal rates of interest.

Financial liabilities	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m
Euro	0.5	0.8	1.3
Japanese Yen	-	2.6	2.6
Total financial liabilities	**0.5**	**3.4**	**3.9**

At 31 March 1999 the financial liabilities of the Group comprised:

Bank overdrafts (unsecured)	0.1
Current instalments of loans (see note 24)	3.6
Loans repayable between one and two years (see note 24)	0.1
Loans repayable between two and five years (see note 24)	0.1
	3.9

The weighted average interest rate of the fixed-rate financial liabilities was 1.5%. The weighted average period for which the rates were fixed was 159 days. The interest rates of the floating rate financial liabilities are based on the LIBOR for the relevant period plus margin.

(b) Borrowing facilities

As at 31 March 1999 the Group had no undrawn committed borrowing facilities.

(c) *Fair values of financial assets and financial liabilities*

It is considered that the fair value of all the Group's financial assets and liabilities equates to their carrying value, because of the short term nature of these amounts.

25 Financial risk management continued

(d) Group hedging

The Group hedges a significant percentage of the foreign currency exposure arising from its trading activities over the course of the next 12 months, through the use of forward foreign exchange contracts.

The Company provides foreign currency inter company loans to a number of its subsidiaries. The foreign currency asset in the parent company is hedged in full using currency swaps. This has the effect on a Group basis of converting an inter company loan into a partial hedge against net foreign currency assets in the relevant currency.

The following table shows the unrecognised gains and losses on the Group's hedges at 31 March 1999, and their fair value after taking these into effect. The hedges have no book value. All the unrecognised gains and losses are expected to be recognised in the year ended 31 March 2000.

Forward foreign exchange contracts	Hedging trading flows £m	Hedging inter company debt £m	Total £m
Notional principal amounts:			
to buy currency	(6.6)	-	(6.6)
to sell currency	19.7	11.5	31.2
	13.1	11.5	24.6
Unrecognised gains and losses:			
gains			1.0
losses			(0.2)
Total net gains			0.8
Fair value at 31 March 1999			**25.4**

(e) Currency exposures

The table below shows the Group's currency exposures, which are those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the financial assets and financial liabilities of the Group that are not denominated in the functional currency of the international operating company involved. The currency exposures below are those at 31 March 1999 which remain after taking into account the effect of all external hedging.

	Net foreign currency monetary liabilities	
Functional currency of Group company	Sterling £m	Euro £m
Sterling		1.0
Euro	2.9	
Danish Kroner	0.7	-
Hong Kong Dollar	0.7	-
Chilean Peso	0.3	-
Indian Rupee	0.3	-
South African Rand	0.3	-
Swedish Kroner	0.2	-
New Zealand Dollar	0.1	-
Total	**5.5**	**1.0**

26 Provisions for liabilities and charges

	GROUP			COMPANY
	Reorganisation	**Deferred taxation**	**Total**	**Deferred taxation**
	£m	**£m**	**£m**	**£m**
At 1 April 1998	1.4	4.4	5.8	1.9
Advance corporation tax recovered	-	6.7	6.7	-
Profit and loss account	-	(0.2)	(0.2)	0.2
Utilised in the year	(0.3)	-	(0.3)	-
Translation differences	-	0.1	0.1	-
At 31 March 1999	**1.1**	**11.0**	**12.1**	**2.1**

	GROUP		COMPANY	
	1999	1998	**1999**	1998
Deferred taxation	**£m**	£m	**£m**	£m
Amounts provided:				
Accelerated capital allowances	**11.4**	12.0	**2.2**	2.0
Other short term timing differences	**(0.4)**	(0.9)	**(0.1)**	(0.1)
Advance corporation tax recoverable	**-**	(6.7)	**-**	-
	11.0	4.4	**2.1**	1.9
Amounts not provided – rolled over capital gains	**0.5**	0.5	**-**	-

The reorganisation provision relates primarily to amounts payable over the next two years on a lease which was taken out on a property occupied by a company which was divested by the Group in the year ended 31 March 1993.

27 Lease commitments

The Group has entered into non-cancellable leases in respect of plant and machinery, the payments for which extend over a period of up to 5 years. The total annual rental (including interest) for 1999 was £1.5m (1998 £1.6m). The lease agreements provide that the Group will pay all insurance, maintenance and repairs. In addition, the Group leases certain properties on short and long term leases. The annual rental on these leases was £4.9m (1998 £5.1m). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays all insurance, maintenance and repairs of these properties. The minimum annual rentals under the foregoing leases are as follows:

	GROUP				COMPANY	
	Properties		**Plant and machinery**		**Properties**	
	1999	1998	**1999**	1998	**1999**	1998
	£m	£m	**£m**	£m	**£m**	£m
Operating leases which expire:						
Within one year	**0.4**	0.1	**0.5**	0.9	**0.1**	-
Within two to five years	**3.7**	2.2	**1.0**	0.6	**0.5**	0.6
After five years	**1.4**	1.8	**-**	-	**-**	-
	5.5	4.1	**1.5**	1.5	**0.6**	0.6

28 Contingent liabilities

At 31 March 1999 the following contingent liabilities existed:

COMPANY

Guarantees in respect of bank facilities available to certain subsidiaries up to a maximum of £14.8m (1998 £4.0m).

GROUP AND COMPANY

Guarantee in respect of rent on premises occupied by Helix Lighting Limited, a former subsidiary, for the period of the lease which expires in 2009.

Guarantee in respect of rent on premises occupied by Misco Computer Supplies Limited, a former subsidiary, for the period of the lease which expires in 2013.

29 Share capital	**1999 Number of shares**	1998 Number of shares	**1999 £m**	1998 £m
Ordinary shares of 10p each:				
Authorised	**500,000,000**	500,000,000	**50.0**	50.0
Called-up and fully paid:				
At 1 April 1998	**428,433,418**	426,115,316	**42.8**	42.6
New share capital subscribed	**2,403,049**	1,208,465	**0.3**	0.1
Scrip dividends	**285,458**	1,109,637	**-**	0.1
At 31 March 1999	**431,121,925**	428,433,418	**43.1**	42.8

All of the new share capital subscribed related to the exercise of share options (see note 30), and includes 1,000,000 shares which were issued to the QUEST to satisfy options granted under the savings-related share option scheme which will mature in the next two years. The shares were issued at market value of £4.0m at the date of subscription. The QUEST was funded by a voluntary cash payment from the Company and is obliged to waive dividends in respect of all shares in the Company it holds.

30 Share option schemes

	Executive option scheme 1988 Scheme	SAYE schemes	Total
Movement in number of outstanding options			
At 1 April 1998	3,171,960	5,357,071	8,529,031
Grants in the year	316,250	949,734	1,265,984
Options exercised	(473,260)	(929,789)	(1,403,049)
Options lapsed	(54,650)	(799,721)	(854,371)
At 31 March 1999	**2,960,300**	**4,577,295**	**7,537,595**
Consideration in respect of exercises	£715,081	£3,227,967	£3,943,048
Options granted	1989 to 1998	1993 to 1998	
Period of option	1999 to 2008	1999 to 2003	
Price per share			
Lowest	92.75p	193.0p	
Highest	555.2p	450.0p	
Weighted average	305.1p	294.4p	

Executive Share Options are normally exercisable during the period between the third and tenth anniversaries of the date of grant. Not more than 50% of the option may be exercised prior to the fifth anniversary of the date of grant and not more than 80% prior to the seventh anniversary. Options issued under the savings related schemes are normally exercisable during the period of six months following either the third or fifth anniversary of the date of grant. Share options outstanding to the Directors of the Company are detailed in the Report of the Directors on page 28.

The consideration received in respect of the exercise of SAYE options includes £3,073,368 (1998 £2,239,354) received from the QUEST.

31 Reserves

	Share premium account £m	Profit and loss account £m	Total £m
GROUP			
At 1 April 1998	13.5	260.2	273.7
Retained profit for the year	-	31.3	31.3
Translation differences	-	1.7	1.7
Premium on new share capital subscribed	0.8	-	0.8
Premium on new share capital subscribed through the QUEST	3.0	(1.7)	1.3
Premium on shares issued to the QUEST in respect of the pre-funding arrangement	3.9	(4.0)	(0.1)
Premium on shares issued re scrip dividends	1.5	-	1.5
At 31 March 1999	**22.7**	**287.5**	**310.2**
COMPANY			
At 1 April 1998	13.5	160.2	173.7
Retained loss for the year	-	(2.7)	(2.7)
Premium on new share capital subscribed	0.8	-	0.8
Premium on new share capital subscribed through the QUEST	3.0	(1.7)	1.3
Premium on shares issued to the QUEST in respect of the pre-funding arrangement	3.9	(4.0)	(0.1)
Premium on shares issued re scrip dividends	1.5	-	1.5
At 31 March 1999	**22.7**	**151.8**	**174.5**

The net cumulative amount of goodwill written off to consolidated profit and loss in respect of subsidiaries that form part of the Group's continuing activities at 31 March 1999 is £43.8m (1998 £43.8m). The gross cumulative amount of goodwill is £45.0m (1998 £45.0m).

32 Reconciliations of movements in shareholders' funds

	GROUP		COMPANY	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Profit for the financial year	**76.4**	80.6	**42.4**	128.3
Dividends	**(45.1)**	(38.6)	**(45.1)**	(38.6)
Retained profit (loss) for the year	**31.3**	42.0	**(2.7)**	89.7
Translation differences	**1.7**	(7.4)	**-**	0.2
New share capital subscribed (net of QUEST)	**2.3**	1.5	**2.3**	1.5
Scrip dividends	**1.5**	4.7	**1.5**	4.7
Goodwill arising on acquisitions	**-**	(5.1)	**-**	-
Net addition to equity	**36.8**	35.7	**1.1**	96.1
Equity shareholders' funds at 1 April 1998	**316.5**	280.8	**216.5**	120.4
Equity shareholders' funds at 31 March 1999	**353.3**	316.5	**217.6**	216.5

33 Gross cash flows – Group

	1999 £m	1998 £m
Returns on investments and servicing of finance		
Interest received	**6.3**	6.3
Interest paid	**(0.4)**	(0.5)
Net cash inflow from returns on investments and servicing of finance	**5.9**	5.8
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(19.6)**	(29.0)
Sales of tangible fixed assets	**1.3**	0.8
Receipt of grant	**-**	0.1
Net cash outflow for capital expenditure and financial investment	**(18.3)**	(28.1)
Management of liquid resources		
Sales of government securities	**1.2**	3.1
Net increase in bank deposits	**(28.3)**	(8.8)
Net cash inflow from management of liquid resources	**(27.1)**	(5.7)
Financing		
Issue of ordinary share capital	**2.3**	1.5
New bank loan	**3.5**	1.5
Repayment of loan notes	**(0.3)**	(0.3)
Repayment of bank loans	**(1.9)**	(0.1)
Net cash inflow from financing	**3.6**	2.6

34 Analysis of changes in net funds – Group

	At 1 April 1998 £m	Cash flows £m	Other non-cash changes £m	Translation differences £m	**At 31 March 1999 £m**
Cash at bank and in hand	29.9	3.0	-	0.4	**33.3**
Overdrafts	(3.8)	3.8	-	(0.1)	**(0.1)**
		6.8			
Debts due within one year	(1.8)	(1.3)	(0.1)	(0.4)	**(3.6)**
Debts due after more than one year	(0.3)	-	0.1	-	**(0.2)**
		(1.3)			
Current asset investments	63.9	27.1	-	0.2	**91.2**
	87.9	32.6	-	0.1	**120.6**

35 Principal exchange rates

	1999		1998	
	Average	**Closing**	Average	Closing
Australian Dollar	**2.67**	**2.56**	2.30	2.53
Deutschmark	**2.90**	**2.92**	2.92	3.10
French Franc	**9.71**	**9.80**	9.80	10.37
Italian Lire	**2863**	**2893**	2869	3052
Japanese Yen	**213**	**191**	203	223

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FINANCIAL CALENDAR

Announcement of results
The results of the Group are normally published at the following times:

Interim report for the six months to 30 September by early November.
Preliminary announcement for the year to 31 March by early June.
Report and Accounts for the year to 31 March in June.

Dividend payments
Current policy is to make dividend payments at the following times:
Interim dividend in January.
Final dividend in August.

1999 final dividend

Ex-dividend date	14 June
Record date	18 June
Annual General Meeting	23 July
Dividend paid	9 August

FIVE YEAR RECORD

Year ended 31 March	**1999**	1998	1997	1996	1995
	£m	£m	£m	£m	£m
Turnover					
RS Group	**621.2**	614.3	571.8	525.0	434.8
Pact International	**55.9**	48.1	39.5	39.8	37.8
Group	**677.1**	662.4	611.3	564.8	472.6
Operating profit					
RS Group (including Groupwide process costs)	**103.2**	110.0	108.3	95.6	82.9
Pact International	**2.8**	2.4	1.0	0.9	0.4
Group	**106.0**	112.4	109.3	96.5	83.3
Non-operating exceptional items	**-**	-	-	0.3	-
Net interest receivable	**6.4**	5.8	3.1	2.4	2.8
Profit before taxation	**112.4**	118.2	112.4	99.2	86.1
Taxation	**(36.0)**	(37.3)	(37.0)	(32.4)	(28.4)
Profit after taxation	**76.4**	80.9	75.4	66.8	57.7
Minority equity interests	**-**	(0.3)	(0.1)	(0.1)	-
Group profit for the year	**76.4**	80.6	75.3	66.7	57.7
Dividends	**(45.1)**	(38.6)	(33.0)	(28.1)	(23.8)
Retained profit	**31.3**	42.0	42.3	38.6	33.9
Net funds	**120.6**	87.9	84.5	41.2	61.5
Other net assets	**232.7**	228.6	199.4	208.1	145.4
Net assets employed	**353.3**	316.5	283.9	249.3	206.9
Number of shares in issue (million)					
Weighted average	**429.4**	427.0	425.1	422.4	420.6
Year end	**431.1**	428.4	426.1	423.8	420.8
Dividends per share	**10.5p**	9.0p	7.7p	6.6p	5.62p
Earnings per share					
FRS3 basis	**17.8p**	18.9p	17.7p	15.8p	13.7p
Adjusted	**17.8p**	18.9p	17.7p	15.6p	13.7p
Pre-tax return on capital employed	**31.8%**	37.3%	39.6%	39.8%	41.6%
Average number of employees	**4,302**	4,316	3,754	3,440	2,959
Share price at 31 March	**465.0p**	527.5p	400.5p	355.0p	266.5p
Net asset value per share	**82.0p**	73.9p	66.6p	58.8p	49.0p

For 1995 the numbers of shares and per share statistics have been restated to take account of the bonus issues in September 1995. Adjusted earnings per share removes the distortion of discontinued operations, which under previous reporting conventions were treated as extraordinary items and therefore excluded from the value of Group earnings. The profit analysis above is shown using the FRS3 convention.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Electrocomponents plc will be held at The Lanesborough Hotel, 1 Lanesborough Place, London SW1X 7TA on Friday 23 July 1999 at 12.00 noon.

The business of the meeting will be:

ORDINARY BUSINESS

Report and accounts

1 To receive the accounts and the reports of the Directors and the auditors for the year ended 31 March 1999.

Declaration of dividend

2 To declare a final dividend on the ordinary shares.

Director retiring by rotation

3 To re-elect Dr F D Lennertz as a Director.

Auditors' appointment and remuneration

4 To appoint KPMG Audit Plc as auditors to the Company and to authorise the Directors to agree their remuneration.

SPECIAL BUSINESS

To consider and if thought fit, pass the following resolutions of which resolution 5 will be proposed as an Ordinary Resolution and resolutions 6, 7 and 8 will be proposed as Special Resolutions:

ORDINARY RESOLUTIONS

Renewal of Directors' authority to allot shares

5 THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 and in substitution for any existing power to allot relevant securities to exercise all the powers of the Company to allot relevant securities (within the meaning of the said Section 80) up to an aggregate nominal amount of £6,467,043 during the period commencing on the date of the passing of this Resolution and expiring on 22 July 2004, but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements.

SPECIAL RESOLUTIONS

Renewal of Directors' authority to disapply pre-emption rights

6 THAT subject to the passing of Resolution 5 set out in the Notice of this Meeting:

(a) the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the 'Act'), to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority given by the said Resolution 5 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(i) in connection with or the subject of an offer or invitation, open for acceptance for a period fixed by the Directors, to holders of ordinary shares and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (including equity securities which, in connection with such offer or invitation, are the subject of such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever);

(ii) pursuant to the terms of any share scheme for employees approved by the members in general meeting; and

(iii) (otherwise than pursuant to sub-paragraphs (i) and (ii) above) up to an aggregate nominal amount of £2,155,681.

and shall expire on 22 July 2004, except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements;
and

(b) all authorities previously conferred under section 95 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

Renewal of Directors' authority to purchase own shares

7 THAT the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 10p each in the Company ("ordinary shares") provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 21,556,809;

(b) the minimum price which may be paid for ordinary shares is 10p per ordinary share;

(c) the maximum price which may be paid for ordinary shares is an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase;

(d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company, unless such authority is renewed prior to such a time; and

(e) the Company may make a contract 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 such contract.

Alteration to Articles of Association

8 THAT, with effect from the conclusion of this meeting, the Articles of Association of the Company shall be altered by deleting the sum of £250,000 in the third line of Article 102.1 and inserting the sum of £350,000 in substitution therefor.

By Order of the Board
Carmelina Carfora
Secretary
8 June 1999

Registered Office: 4240 Nash Court, Oxford Business Park, Oxford OX4 2RU.

Notes

(i) A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.

(ii) To be effective a proxy form and the authority (if any) under which it is signed or a notarially certified copy of such authority must be deposited at the offices of the Company's registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4BR not less than 48 hours before the time fixed for the Meeting.

(iii) A copy of the Articles of Association (incorporating the proposed alteration) will be available for inspection at the offices of Norton Rose, Kempson House, Camomile Street, London EC3A 7AN during normal business hours on weekdays (Saturdays and public holidays excepted) until the close of the Annual General Meeting on 23 July 1999 and at the place of the Annual General Meeting for 15 minutes prior to and during the meeting.

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Shanghai	(86) (0) 21 6427-7688
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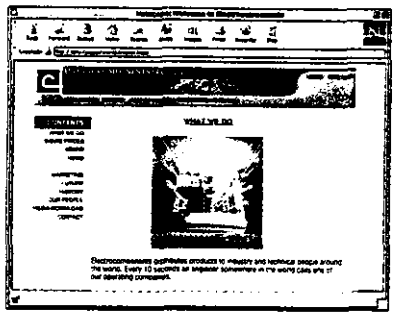
Design and production Blaze Business to Business Northants

ELECTROCOMPONENTS ON THE WEB

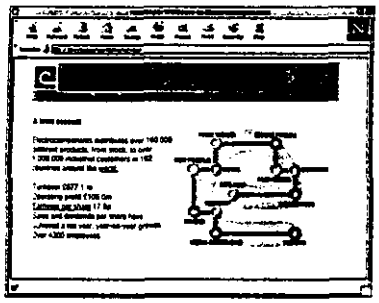


Visit our new corporate web site at www.electrocomponents.com...

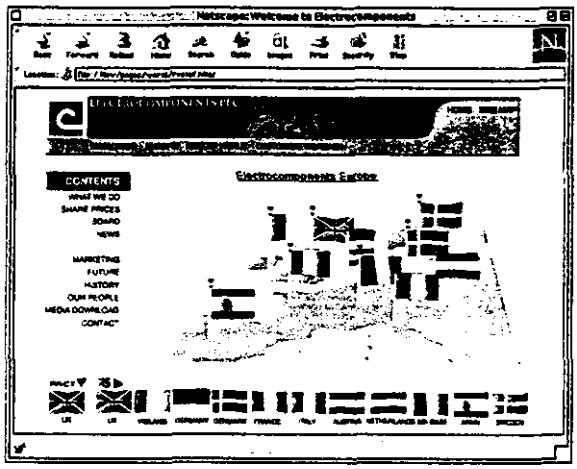
Electrocomponents plc announces the launch of its new web site. The site contains information about the Electrocomponents Group.

Contents will include

- Up-to-date share price information
- Group strategy and organisational structure
- Electronic copies of the annual Report and Accounts and the Interim Statement
- Copies of Press Releases
- Press clippings about RS and the Group
- The latest news and announcements from Group companies around the world
- The history of RS and the Electrocomponents Group
- A recruitment page advertising vacancies around the Group
- Links to all other RS and Group company web sites around the world
- Information about the products and services we offer and in which geographies we offer them



Our web site can be found at **www.electrocomponents.com**



... and see RS's award-winning trading site at rswww.com

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