Chairman's statement

Our confidence in taking the opportunities available to the Group is undiminished >>>

Results

This report is prepared against a background of exceptionally tough conditions in all geographic markets, particularly in the electronic and telecommunications manufacturing sectors.

Group sales declined by 7.8% to £759.6m and profit before tax and amortisation of goodwill by 15.0% to £105.5m. The return on sales declined to 13.9% from 15.1% as costs important to the Group's future growth were sustained, and strategic investments, particularly in e-Commerce, were increased. Sales were reduced as rationalisation programmes that constrained our customers' buying were actioned across many sectors of industry. Whilst the absolute performance is a significant decline on prior year, the Group's overall performance has been robust and this provides confidence for our future prospects.

In spite of the tough conditions, it is important to emphasise that management has continued the strategic development of the Group, the detail of which is contained in Ian Mason's report. This continued strengthening and enhancement of the Group's capability is critical to creating the platform to generate a superior and sustainable earnings stream. This enduring characteristic of Electrocomponents is the foundation block upon which future value is built. The growth potential of our businesses remains unchanged and will continue to be realised as economic conditions improve.

The Board recommends that the final dividend is increased by 15.2% to 11.0p to give a full year dividend increase of 15.2% to 15.9p. The dividend growth is underpinned by the exceptional ability of the business model to generate cash. The net debt reduced from £75.5m to £53.0m, even after a considerable increase in capital expenditure including: investment in systems; e-Commerce development for all European markets and Japan; and the new warehouses for the Italian and German operations.

Management

The year under review has seen significant change in the management of the Group. Roy Cotterill retired after six years as Chairman. Roy led the business during a period of great change as the major strategic thrust to create the required global infrastructure was delivered. He retired having witnessed Electrocomponents establish a position in every major economy of the world. We do wish Roy a very happy and well-earned retirement.

The executive teams under Ian Mason's leadership have settled well. This team, which was instrumental in developing the Electrocomponents strategy, provides continuity of direction combined with the knowledge and experience to drive development aggressively. An example of the continued evolution of the Group has been the establishment of regional management structures in the UK, Continental Europe, Asia, USA and Japan. This provides the local focus to drive market development whilst creating the infrastructure to share best practice on a regional and global basis. The Group has a clear direction and is in good hands for its future.

Our staff have experienced a tough year with customer demand weakening. In addition, they have had to cope with the frustrations and complexities of major customers undertaking

It's about having the opportunity to develop yourself in different parts of the Group as part of an international business.

Anders Friis
Finance, RS Scandinavia

restructuring or major reorganisation. In such circumstances, it has been very difficult for them to develop relationships and to maintain previous revenue levels. Faced with these conditions and uncertainties, they have worked diligently to maintain and enhance our service to customers, and it is this standard of service that creates the differentiation for the Group in all our markets. On behalf of the Board and the shareholders, I am delighted to offer them a sincere vote of thanks.

Accompanying this Report and Accounts there is a Circular containing a proposal for a new and more effective Long Term Incentive Share Option Plan for the Group's Executive Directors and senior management. It is designed to link success in delivering the strategy to rewards for management. The Plan does ensure that shareholders benefit ahead of management but also rewards management for superior performance. The Board will recommend the Plan for approval at the Annual General Meeting.

Current Trading

Since the year end, the sales per day of the Group have been similar to that of the preceding quarter. This is a welcome sign of improving month-on-month stability, though trading remains volatile. Since January, sales per day have increased modestly in Allied and our Asian businesses, have been stable in continental Europe and have declined slightly in the United Kingdom.

Leading indicators, such as the Purchasing Managers Indices, are now more positive on the prospects for recovery in our major markets, however current manufacturing activity remains low. Based on our experience of previous cycles we anticipate that it will take some months before the positive moves in the indicators are reflected in our customers' buying. We are focusing our sales and marketing activities on those customers best placed to benefit from recovery, including making full use of our newly extended internet capabilities. It is noteworthy that our sales over the internet amounted to over £51m as a whole and grew by over 50%.

We are continuing to manage our gross margin, cost base and working capital effectively and consistent with a difficult trading environment. Our investments in initiatives critical to the longer term strategy of the Group have been sustained and a major systems programme developed. We anticipate such investments continuing in the current year. Our financial robustness has been demonstrated by our ability to fund major investments and increase dividends whilst reducing net debt significantly.

We have managed our businesses through this challenging year so that they remain well positioned to benefit from an upturn in our markets. Our confidence in being able to capitalise on the opportunities available to the Group is undiminished.

Bob Lawson, Non-Executive Chairman