WE HAVE MADE SIGNIFICANT PROGRESS IN IMPLEMENTING THE GROUP'S STRATEGY PARTICULARLY DEVELOPING THE ELECTRONICS AND E-COMMERCE OFFERS

Ian Mason
Group Chief Executive

OVERVIEW AND STRATEGY IMPLEMENTATION

The Group is the leading high service distributor to engineers worldwide, having been the first to globalise its operations. 65% of sales now come from our markets in Continental Europe, North America and Asia Pacific and 40% of the Group's sales are via the e-Commerce channel. The Group distributes the broadest range of technologies to electronics engineers and has the leading high service offer for maintenance engineers worldwide. These offers are supported by a world class global infrastructure and systems.

The Group faced markedly different trading conditions between the first half and the second half of the year. In the first half the Group achieved sales growth, cost leverage and profit growth. During the second half, general macroeconomic conditions deteriorated significantly, and this adversely impacted the Group's performance.

As a result of the worsening macroeconomic environment during the year, we have accelerated the implementation of the strategy and also focused on maintaining the financial strength of the business. The £281m bank refinancing was concluded during the year, robust financial metrics were maintained and actions taken to reduce costs.

The Group aims to build upon its strong foundations and in May 2008, the Board reviewed its strategy and identified four key areas to drive future performance.

- Focus on International markets
- Accelerate the development of the Group's electronics and maintenance offers
- Exploit the full potential of e-Commerce
- Leverage the Group's global infrastructure and increase operating margins

During the year we have made significant progress in each of these areas, particularly in the development of the electronics and e-Commerce offers and in reorganising our Continental Europe and Asia Pacific regions.

Focus on International markets
During the year the Continental Europe and Asia Pacific regions have been reorganised in order to implement the strategy faster and improve performance. A more consistent, streamlined and cross-regional approach has been introduced. Headcount has been reduced and resources have been reallocated from sales to marketing and from off-line to on-line activities, in keeping with the Group strategy.

In addition, the senior management team in Europe has been strengthened during the year with the appointment of the previous UK General Manager to lead the region and the creation of a European Executive Management team. In Asia Pacific the region, which has doubled its sales since 2003, has been reorganised to create a more efficient and flexible structure to better serve its customers.

While the worsening macroeconomic environment has impacted results, particularly in the second half of the year, the Board believes that the International business has significant growth potential in all of its three regions: Asia Pacific, Continental Europe and North America.

Accelerate the development of the Group's electronics and maintenance offers
The electronics offer to our customers was significantly enhanced during the year. We successfully launched our electronics production packaging capability across the UK, Europe and Asia Pacific. This new capability is aimed at customers with small batch production needs, allowing them to order the quantity that they need in tubes, trays and continuous strips. The range available now totals 50,000 products.

The electronics product offer has been expanded with 10,000 new electronics products from leading suppliers being introduced during the year. We now offer the broadest stocked range of Panasonic products in Europe of any high service distributor with some 1,700 new products added to our existing passive components range. In April 2009, we significantly increased our European stocked range of Texas Instruments products bringing the total range on offer to 11,000 products, with over 95% of the products available in production packaging format. To date sales of both the Texas Instruments and Panasonic ranges have grown strongly. Further product launches from leading electronics suppliers are planned for the next financial year across the UK, Continental Europe and Asia Pacific.

A number of actions have been taken to more competitively position our electronics offer with a significant number of electronics product prices being reduced during the year.

THE ELECTRONICS TEAM HAS BEEN STRENGTHENED TO DRIVE THE STRATEGY

The electronics division was strengthened during the year with the appointment of a former senior executive of Memec, the global semiconductor distributor, to lead the division. The central electronics team has been expanded in order to drive the electronics strategy globally with a consistent and focused approach supported by our strategic suppliers.

We continue to improve our offer to maintenance engineers. This includes more targeted and effective promotion of specific ranges, supported by strategic suppliers with combined web activity, joint sales visits and customer referrals. Further progress is being made in strengthening our strategic supplier relationships which are providing our customers with improved product ranges and joint e-Commerce offers. During the year, our higher margin own brand range was expanded and sales outperformed the market. New ranges of low energy and long lasting lighting products have been introduced in Europe which combined with successful sales and marketing campaigns have seen our lighting range outperform the overall business. We have also leveraged our global sourcing capability to improve product costs.

Exploit the full potential of e-Commerce

e-Commerce provides our customers with an improved service offer through the provision of more tailored information, rapid introduction of new products, the provision of a wider product range and benefits from the deepening of our supplier relationships. It also allows the business to reduce off-line costs.

We have significant e-Commerce capability in the Group with a single web site platform which supports our UK, Continental Europe and Asia Pacific businesses, and real time links to transactional systems which allow our customers to experience on-line stock visibility and weekly content updates. We have built a large on-line customer base with over 1.5 million unique visits per month to the RS sites.

We have significantly enhanced the Group's e-Commerce offer in the last year and have made a step change towards becoming an e-centric business. Underlying e-Commerce revenue increased by 10% in the year. The e-Commerce share of Group revenue increased from 31% to 36% year on year and exited the year at around 40%. In North America e-Commerce revenue grew by around 45% in the year.

Our focus has been on the three drivers of performance: visitor numbers, visit-to-order conversion and average order value. There has been a 25% increase in unique visitors to RS sites which has been enabled by the acceleration of our paid search programme. Search-to-order conversion has increased by 60% across the UK and Continental Europe due to the improved search and browse capability which was introduced during the year. Cross selling programmes, including "new accessory" and "customer also viewed" links as well as the availability of own brand alternatives, have increased average order value. Off-line costs have been reduced as the e-Commerce channel has grown and on-line services have been enhanced. In September 2008 "My account" functionality was introduced, which allows customers to track parcels and manage their administrative details.

New leading edge e-Commerce functionality has been added during the year. The website is now available to mobile phone users in the UK, Continental Europe, North America and Asia Pacific: a first for a high service distributor. This provides mobile phone users with the ability to place orders, search, view prices, check stock availability and access technical specifications and images.

Leverage the Group's infrastructure and increase operating margins

We have world class global infrastructure and systems including a global e-Commerce platform, integrated systems, centralised purchasing and supplier management and global inventory, logistics and supply chain management.

While Group operating costs, at constant foreign exchange rates reduced in 2009, the cost reductions principally in the UK and Europe were partially reinvested in the strategically important areas of Asia Pacific and electronics.

A significant proportion of the Group's operating cost base is fixed which does not vary directly with sales. This enables cost leverage to be delivered when sales increase, as was the case in the first half of the financial year. However, it also requires such cost to be reduced when sales decline. Therefore actions were taken principally in the final quarter of the financial year which will achieve annualised cost savings of £18m, including a net reduction of around 500 employees, which represents around 8% of the total headcount, as well as other significant measures to reduce costs.

These actions have been taken across all regions of the business. They have been enabled by the increasing e-Commerce channel share, strong control of discretionary spend, redistribution of activity between the Group's two UK warehouses and exploiting the benefits of our systems infrastructure.

Maintain financial strength
In the current difficult macroeconomic environment, the Board is determined to maintain the Group's financial strength. The business delivered a strong cash flow of £78m, which was 4% higher than the prior year and represented 118% of profit after tax. In addition, the Group has robust financial metrics with interest cover of 13 times and a net debt to EBITDA ratio of 1.7 times. This provides us with significant headroom between these financial metrics and the banking covenants. The headroom between net borrowings and committed bank facilities at 31 March 2009 was £111m and the vast majority of the bank facilities do not mature until September 2012.

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OUR FOCUS

1 INTERNATIONAL MARKETS

2 THE CUSTOMER OFFER

3 MAINTAINING FINANCIAL STRENGTH