



We remain committed to generating high returns for shareholders over time as a result of past investments and the developments now in progress.

Bob Lawson, Chairman

The sales growth experienced in the first half of the year weakened in the second half which resulted in a small decline in operating profit for the year of 1.7% to £105.3m from a sales increase of 4.5% to £773.9m.

Our view is that our markets, particularly in Europe, have become markedly more difficult. Your Group will therefore increasingly focus on serving the small quantity needs of the electronics engineer together with a broad offer for other engineering disciplines. Our market position in the electronics sector globally is our core strength as reflected by the Distributor of the Year award. However we can exploit this strength to a much greater extent as, I believe, will be demonstrated during the coming years.

Dividend

The Board recommends that the final dividend per share for the year be the same as last year (12.6p) to give 18.4p for the full year, an increase of 1.1%.

Dividend growth in recent years has been based on our view that the high cash generation of the Group, the strong balance sheet and the expectation of reasonably

consistent profit growth would permit most of the earnings and cash flow to be distributed as dividend. Profits have not developed as expected, particularly in the UK and Europe, and in light of the strategic review the dividend policy has been reassessed.

The Board recognises the importance of dividends to shareholders and is confident that the successful implementation of the Enterprise Business Systems (EBS), execution of the strategy and cost reduction initiatives will significantly improve financial performance over the next three years. Consequently, assuming no substantial deterioration in economic conditions, the Board has decided that it should maintain the current level of dividend during these three years. To the extent necessary, the strength of the balance sheet will be used to support the dividend.

Our people

Our staff have experienced a demanding year. The reason that customers place business with us is service excellence and this relies on the attention and commitment of each member of staff. The award received,

WHERE WE ARE, WORLDWIDE

Our Group comprises the RS companies in 24 countries and Allied in the United States and Canada.

RS BUSINESSES:

United Kingdom

Rest of Europe

France, Germany, Italy, Austria, Spain, Republic of Ireland, Denmark, Sweden, Norway, The Netherlands, Belgium

Japan

Rest of World

Australia, China, Hong Kong, Singapore, South Africa, Taiwan, Malaysia, New Zealand, The Philippines, India, Chile

ALLIED ELECTRONICS:

North America

United States

Canada

confirmed by independent market research, confirms that all our people execute their roles supremely well resulting in the service being second to none. I am particularly pleased that these service standards have been maintained whilst either preparing for or installing major system changes in many of our major markets.

On behalf of the Board I would like to thank each person for their contribution.

As announced on March 22nd, Jeff Hewitt, the Group Finance Director, wishes to seek early retirement from the Board in order to develop his career beyond executive duties.

Jeff has been Finance Director for nine years and has played a major role in all the Group activities from being active in strategy execution to Y2K and the launch of the Euro. Latterly, Jeff has played a leading role in the development of the Groupwide Enterprise Business Systems together with strengthening and developing the financial management and investor relations activity of the Group.

Jeff has been a tremendous colleague, catalyst and mentor to all in the Group who have had the pleasure of working with him, and we wish him continued success in his new career direction.

Our search for Jeff's replacement has been successful, and I am delighted to announce that Simon Boddie, Finance Director of Key Markets for Diageo, will be joining us on 1 July. Simon brings much relevant experience, particularly of rapidly changing international markets, which will be of direct benefit to the Group. Jeff will be staying with the Group to ensure a comprehensive handover to Simon.

It is also a great pleasure to welcome Kevin Abbott to the Board. Kevin is CEO of Alpha Airports and not only brings current experience of a demanding service industry but also a breadth of relevant international

knowledge. In the short time that Kevin has been on the Board, he has made a significant contribution.

Governance

The Board has met 12 times during the year and also visited the UK operations. In addition, a two-day strategic review was held, at which Regional Managers presented their plans and priorities were agreed.

Current trading and outlook

The Board is intent on delivering a sustainable and growing profit stream. We are announcing the next stage of the Group's development which will achieve the Board's objectives by focusing on the key customer groups in each market served and reducing costs. A key enabler is the Enterprise Business System, and its implementation this year in the UK is a major task. The Group does have a track record of executing change well.

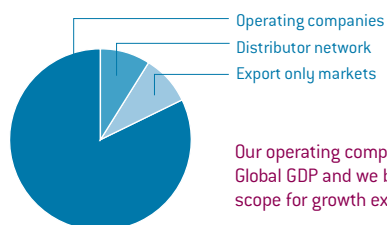
Since the year end, trading has remained strong in North America, Asia, Japan and the smaller European markets but it has continued to be depressed in the UK and our main European markets. The leading indicators suggest a difficult trading environment in most of our markets and so we remain cautious on the outlook for the coming year.

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GLOBAL OPERATIONS AS % OF TOTAL GLOBAL GDP



Our operating companies cover 82% of Global GDP and we believe that further scope for growth exists.

