RS COMPONENTS LIMITED

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2020

Registered Number: 1002091

Strategic Report

The Directors present their Strategic Report for the year ended 31 March 2020.

Principal activity, business review and key performance indicators

The principal activity of RS Components Limited (the Company) is as a omni-channel solutions partner for industrial customers and suppliers. The Company is part of the Electrocomponents Group (the Group) and is comprised of operations in the UK, with branch offices in South Africa and China (Taiwan), as well as the majority of the Group's central processes.

Turnover increased by 0.5% to £904.9 million (2019: £900.3 million) and profit before taxation increased by 14.9% to £125.5 million (2019: £109.2 million). There were good like-for-like turnover growth trends driven predominantly by market share gain, helped by outperformance in value-added solutions such as eProcurement, calibration and RS ScanStock™. Tighter cost control and an increase in recharges to other companies in the Group for the costs of central processes incurred by the Company led to the increase in profit before taxation. The Company also saw improved customer experience scores. The impact of COVID-19 led to a decline in like-for-like turnover in the month of March.

The Company's net assets at 31 March 2020 were £213.6 million (2019: £196.6 million) with the decrease in the retirement benefit obligations due to a decrease in the inflation-linked assumptions and a change in mortality assumptions in line with the basis agreed for the triennial funding valuation at 31 March 2019 and the investment in fixed assets and inventories, largely offset by the increase in amounts owed to Electrocomponents plc impacted by the payment of the 2019 final dividend.

Employee numbers increased to 3,342 (2019: 3,140).

Future developments

The Company plans to continue implementing the Group's strategy as outlined in the 2020 Electrocomponents plc Annual Report and Accounts, focusing on its five strategic priorities:

- Best customer and supplier experience
- High-performance team
- Operational excellence
- Innovation
- Reinvestment to accelerate growth

Section 172(1) statement

Under section 172(1) of the Companies Act 2006 (section 172), the Directors are required to act in a way that they consider, in all good faith, would most likely promote the success of the Company. This success must be for the benefit of the Company's shareholder but also for all other stakeholders.

This has never been more relevant than during the COVID-19 pandemic, where the Company continues to work hard to keep its employees safe and its business viable; where it endeavours to keep its customers running and also supports those critical businesses that rely on it, such as food and beverage, healthcare, utilities, power generation industries and the public sector. These are some of the Company's stakeholders and how it treats and interacts with them, especially at this time, demonstrates how seriously the Directors takes their responsibilities under section 172.

From the perspective of the Directors, as a result of the Group governance structure, whereby two of the Company's directors are also the Group executive directors and the other two Company directors are senior managers in the Group, and the Company being the largest UK subsidiary in the Group representing over 25% of the Group's external revenue and operating the majority of the Group's central processes, the matters that the Directors are responsible for considering under section 172 have been considered to an appropriate extent by the Group Board in relation to both the Group and the Company. The Directors have also considered relevant matters where appropriate. To the extent necessary for an understanding of the development, performance and position of the Company, an explanation of how the Group Board has considered matters set out in section 172 is set out on pages 59, 67 to 69 of the 2020 Electrocomponents plc Annual Report and Accounts.

Also, detailed information of how the Directors have supported the Company's employees is included in employee engagement on page 3 and as well as in the 2020 Electrocomponents plc Annual Report and Accounts on pages 50 to 52.

The Directors have considered all the Company's stakeholders and the long-term consequences of the decisions taken when assessing the level of dividends to pay.

Strategic Report (continued)

Principal risks and uncertainties

Principal risks and uncertainties affecting the Company are summarised below. The Company is also exposed to other risks and uncertainties that affect the Group as a whole and are described more fully in the 2020 Electrocomponents plc Annual Report and Accounts.

COVID-19 pandemic: The COVID-19 pandemic is having far-reaching, and still-developing, impacts across the world. Uncertainties arising as a result of the pandemic include: reductions in customer demand; the risk of a deterioration in cash flow, specifically the recoverability of trade debtors; delays and difficulties sourcing inventories; significant transport constraints and resulting increased costs; uncertainty about the duration of lockdowns and risk of further outbreaks; and speed and extent to which industries can recover. The Company, as part of the Group, has undertaken mitigating actions to attempt to reduce the impact of the pandemic on the business, further details of which are available in the 2020 Electrocomponents plc Annual Report and Accounts.

UK exit from the EU: Economic conditions remain uncertain whilst negotiations on the UK's exit from the EU continue. The Group has undertaken planning and mitigating actions considering various scenarios for the UK's exit. These scenarios looked beyond the current transition period and the potential relationship between the UK and the EU. These included a more significant and immediate UK exit from the EU without agreed trading arrangements. In such a case the UK trading relationship with the EU would be governed by World Trade Organisation ('WTO') rules (this is often termed as Hard Brexit) The Group judges the key risk to the business from the UK exiting the EU without a withdrawal agreement to be across four key areas: reduced free movement of goods across the UK / EU border leading to disruption to customer service; increased tariff and duty costs on goods moving between the UK and EU; increased administration to process the required cross border data flows; and depreciation of sterling. In each of these four areas the Group has undertaken mitigating actions to attempt to reduce the impact of these risks on the business, further details of which are available in the 2020 Electrocomponents plc Annual Report and Accounts.

Foreign exchange risk: The Company's sales in Taiwan and South Africa are in the currencies of those countries and the UK has an export business, of which a small proportion of sales are denominated in euros and US dollars. The Company also makes purchases in foreign currencies. The Company is therefore exposed to the movement of these currencies against sterling on its foreign currency-denominated sales and purchases. The Group's treasury function manages this risk at a Group level and on behalf of the Company, further details of which are available in the 2020 Electrocomponents plc Annual Report and Accounts. Derivatives used for this purpose are foreign exchange forward contracts which are accounted for as cash flow hedges and recognised on the balance sheet at fair value.

Failure to respond to strategic market shifts e.g. changes in customer demands and / or competitor activity: There is a risk of unforeseen changes in customer and market assumptions on which the Group performance plans are based.

Financial risk management

Liquidity and interest rate risk: The Company has arrangements with the Group that enable it to access funds when needed to meet its liquidity requirements. Interest receivable and payable on loans with other Group companies is calculated based on market rates of interest. The Group liquidity requirements and interest rate risks are managed at a Group level.

Credit risk: The Company is exposed to credit risk on financial assets such as cash balances (including deposits and cash and cash equivalents), derivative instruments and on trade and other receivables.

On behalf of the Board:

D Egan
Director
24 July 2020

Directors' Report

The Directors present their Report and the audited accounts for the year ended 31 March 2020.

Directors
The Directors who held office during the year were as follows:
L Ruth
D Egan
M J England
E J Pointon

Directors' and Officers' liability insurance
In accordance with the Company's Articles of Association, the Company entered into a deed in 2007 to indemnify the Directors and Officers (from time to time) of the Company to the extent permitted by law. A copy of this indemnity (which remains in force as of the date on which this report was approved) is available at the registered office of the Company. The Company purchased and maintained Directors' and Officers' liability insurance throughout 2019, which was renewed for 2020 and is in force at the date of approval of this Directors' Report. Neither the indemnity nor insurance provides cover in the event that a Director or Officer is proved to have acted fraudulently.

Dividends
During the year, the Company paid a final dividend of £150.0 million in respect of the year ended 31 March 2019 (2019: £100.0 million). The Directors propose a final dividend of £100.0 million for the year ended 31 March 2020 (2019: £150.0 million).

Employee engagement
The Company recognises the benefits of keeping employees informed of the progress of the business and of involving them in the Company's performance. Through the Company's intranet site and other tools such as Microsoft Yammer, staff newsletters and regular meetings, employees are provided with information relating to the performance of the Company and on other matters of concern to them as employees. Employee representatives are consulted regularly on a wide range of matters affecting their interests. Employees are encouraged to participate in the performance of the Company by the Group's Savings-Related Share Option Scheme. Further details can be found in Note 10.

Listening to employees is a central part of building and enhancing the Company's culture and, as part of the Group, it regularly conducts employee engagement surveys, known as My Voice. Also, one of the Group's Board non-executive directors visited one of the Company's distribution centres during the year in her role as the Group's Board-appointed employee engagement representative. She held face-to-face meetings with employees by way of town halls, with as many employees and members of management present as possible. She then held a series of drop-in sessions with smaller audiences but excluding management. Her findings were fed back to the Group's Board, it agreed follow-up actions and the Company's Directors have taken forward these actions and fed them back to employees.

Employment of disabled persons
The Company is committed to a policy of equal opportunities with regards to its employment practices and procedures. The Company remains supportive of the employment and advancement of disabled persons, and adopts the Group's practices of giving fair consideration to applications for employment from disabled people as well as their training, career development and promotion. Where appropriate, facilities are adapted and retraining offered to any employee developing a disability whilst employed.

Business relationships
From the perspective of the Directors, as a result of the Group governance structure, the Group Board has taken the lead in carrying out the duties of a Board in respect of the Company's other stakeholders. The Directors have also considered relevant matters where appropriate. An explanation of how the Group Board have had regard to the need to foster the Company's business relationships with its suppliers, clients and others and the effect of that regard, including on the principal decisions taken by the Company during the year, is considered pages 59, 67 to 69 of the 2020 Electrocomponents plc Annual Report and Accounts.

Other information to report
The following information is set out on the pages below:
- Financial results – page 7
- Financial instruments and financial risk management – pages 2, 12, 16 and 17
- Likely future developments – page 1
- Branches outside of the UK – page 1

Directors' Report (continued)

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report each confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and that each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Corporate governance arrangements

During the year, the Company's parent company, Electrocomponents plc, applied the 2018 UK Corporate Governance Code which was applied throughout the Group. In doing so, the Company's governance arrangements reflect those that are set out in the 2020 Electrocomponents plc Annual Report and Accounts on pages 66 to 75.

Statement of directors' responsibilities in respect of the accounts

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulation.

Company law requires the Directors to prepare accounts for each financial year. Under that law the Directors have prepared the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the accounts;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 2006.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board:

D Egan
Director
24 July 2020

Independent auditors' report to the members of RS Components Limited

Report on the audit of the financial statements

Opinion

In our opinion, RS Components Limited's accounts (the financial statements):

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the balance sheet as at 31 March 2020; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the accounts set out on page 4, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these accounts.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

<u>Other required reporting</u>

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Sandeep Dhillon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 July 2020

Profit and Loss Account
for the year ended 31 March 2020

	Note	**2020**	2019
		£m	£m
Turnover	5	**904.9**	900.3
Cost of sales		**(658.1)**	(655.6)
Gross profit		**246.8**	244.7
Distribution and marketing expenses		**(261.9)**	(264.8)
Administrative expenses		**(6.5)**	(5.3)
Reorganisation costs	6	**(0.5)**	(4.5)
Other operating income		**150.1**	141.2
Operating profit	7	**128.0**	111.3
Interest payable	11	**(2.5)**	(2.1)
Profit before taxation		**125.5**	109.2
Tax on profit	12	**(15.3)**	(23.2)
Profit for the year		**110.2**	86.0

Statement of Comprehensive Income
for the year ended 31 March 2020

	Note	**2020**	2019
		£m	£m
Profit for the year		**110.2**	86.0
Other comprehensive income / (expense)			
Net gain on cash flow hedges		**2.1**	0.3
Remeasurement of net defined benefit liability		**60.3**	(14.4)
Tax on components of other comprehensive income / (expense)		**(11.9)**	2.3
Other comprehensive income / (expense) for the year		**50.5**	(11.8)
Total comprehensive income for the year		**160.7**	74.2

The notes on pages 10 to 18 are an integral part of these accounts.

Balance Sheet
as at 31 March 2020

	Note	2020 £m	2019 £m
Fixed assets			
Intangible assets	13	**40.0**	36.6
Tangible assets	14	**41.1**	36.7
Investments	15	**-**	-
Total fixed assets		**81.1**	73.3
Current assets			
Inventories	16	**219.5**	203.1
Debtors: amounts falling due after more than one year	17	**4.5**	18.8
Debtors: amounts falling due within one year	17	**275.0**	268.8
Cash at bank and in hand		**4.0**	5.6
Total current assets		**503.0**	496.3
Creditors: amounts falling due within one year	18	**(365.9)**	(297.2)
Net current assets		**137.1**	199.1
Total assets less current liabilities		**218.2**	272.4
Creditors: amounts falling due after more than one year	19	**(2.5)**	(5.6)
Retirement benefit obligations		**(2.1)**	(69.4)
Provisions for liabilities and charges	21	**-**	(0.8)
Net assets		**213.6**	196.6
Capital and reserves			
Share capital	25	**0.1**	0.1
Share premium account		**0.1**	0.1
Hedging reserve		**1.1**	(0.6)
Profit and loss account		**212.3**	197.0
Total equity		**213.6**	196.6

The notes on pages 10 to 18 are an integral part of these accounts.

These accounts on pages 7 to 18 were approved by the Board of Directors on 24 July 2020 and were signed on its behalf by:

D Egan
Director
Company number: 1002091

Statement of Changes in Equity
for the year ended 31 March 2020

	Share capital £m	Share premium account £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
At 1 April 2018	0.1	0.1	(0.8)	216.5	215.9
Profit for the year	-	-	-	86.0	86.0
Net gain on cash flow hedges	-	-	0.3	-	0.3
Remeasurement of net defined benefit liability	-	-	-	(14.4)	(14.4)
Tax on other comprehensive income / (expense)	-	-	(0.1)	2.4	2.3
Total comprehensive income	-	-	0.2	74.0	74.2
Dividends (Note 26)	-	-	-	(100.0)	(100.0)
Equity-settled share-based payments	-	-	-	6.5	6.5
At 31 March 2019	**0.1**	**0.1**	**(0.6)**	**197.0**	**196.6**
Profit for the year	-	-	-	110.2	110.2
Net gain on cash flow hedges	-	-	2.1	-	2.1
Remeasurement of net defined benefit liability	-	-	-	60.3	60.3
Tax on other comprehensive income	-	-	(0.4)	(11.5)	(11.9)
Total comprehensive income	-	-	1.7	159.0	160.7
Dividends (Note 26)	-	-	-	(150.0)	(150.0)
Equity-settled share-based payments	-	-	-	6.3	6.3
At 31 March 2020	**0.1**	**0.1**	**1.1**	**212.3**	**213.6**

The notes on pages 10 to 18 are an integral part of these accounts.

Notes to the accounts

1. General information

The Company is a wholly-owned subsidiary of Electrocomponents plc (Parent Company). The Company is a private company limited by shares and is incorporated and domiciled in England and Wales. The address of its registered office is Birchington Road, Weldon, Corby, Northamptonshire NN17 9RS, UK.

2. Statement of compliance

The Company is included in the Parent Company's consolidated accounts which are publicly available (Note 29) and is therefore exempt, by virtue of section 400 of the Companies Act 2006, from the requirement to prepare consolidated accounts.

These separate accounts of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102), and the Companies Act 2006. They are presented in sterling and rounded to the nearest £0.1 million.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these accounts are set out below and have been consistently applied unless otherwise stated.

(a) Basis of preparation

These accounts are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value through profit or loss.

Exemptions for qualifying entities under FRS 102

The Company has taken advantage of the following disclosure exemptions available under FRS 102:

- preparation of a cash flow statement
- financial instrument disclosures
- share-based payment disclosures
- key management personnel compensation disclosure

(b) Foreign currency transactions

Transactions in foreign currencies are recorded using the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rate ruling at that date and the gains and losses on translation are recognised in operating profit.

(c) Turnover

Turnover from the sales of goods and services is recognised when the significant risks and rewards of ownership have been transferred, which is in most cases upon delivery to the customer. Turnover represents the sale of goods and services and is stated net of sales taxes and volume discounts. Freight recharged to customers is included within turnover.

(d) Cost of sales

Cost of sales comprises the cost of goods delivered to customers and the write-down of inventories to net realisable value.

The Company receives rebates from certain suppliers relating mainly to the volume of purchases made in a specified time period. These rebates are recognised as a reduction in cost of sales to the extent that the inventories purchased from the supplier and eligible for rebates have been sold in the year. Rebates on purchases that remain in inventories are deducted from the cost of inventories, thus reducing cost of sales in the profit and loss account in the period in which the inventories are expensed. The Company recognises the rebate only where there is evidence of a binding arrangement with the supplier, the amount can be estimated reliably and receipt is probable.

(e) Other operating income

Other operating income represents amounts recharged to companies in the Group for the costs of central processes incurred by the Company.

(f) Share-based payments

Equity-settled share-based payments are measured at fair value at the grant date, calculated using an appropriate option pricing model. The fair value is expensed with a corresponding increase in equity on a straight-line basis over the period that employees become unconditionally entitled to the awards. The profit and loss account charge is adjusted to reflect expected and actual levels of vesting associated with non-market performance related criteria.

Cash-settled share-based payments are measured at fair value at the balance sheet date, taking into account the estimated number of awards that will actually vest and the relative completion of the vesting period. This fair value is included in liabilities and changes in the value of these liabilities are recognised in the profit and loss account.

Notes to the accounts (continued)

3. Summary of significant accounting policies (continued)

(g) Post-employment benefits

Employees of the Company may be members of the Group's UK pension scheme.

Defined benefit pension scheme

There is no agreement or stated policy for charging the net defined benefit cost for the scheme to the individual Group entities. Both the Company and the Parent Company are the sponsoring employers. The majority of the scheme members work for the Company and so it accounts for the UK scheme as a defined benefit scheme in these accounts. Details of the pension scheme are disclosed in Note 10 to the Group Accounts of the 2020 Electrocomponents plc Annual Report and Accounts.

The surplus or deficit recognised in the balance sheet is the difference between the fair value of the scheme assets and the present value of the obligation at the balance sheet date. The present value of the obligation is measured using the projected unit credit method and a discount rate reflecting yields on high-quality corporate bonds.

The operating profit charge comprises the current service cost, net interest cost, past service costs, curtailment gains and losses and settlement gains and losses. The net interest cost is based on the discount rate at the beginning of the year, contributions paid in and the surplus or deficit during the year. Past service costs and curtailment gains and losses are recognised at the earlier of when the scheme amendment or curtailment occurs and when any related reorganisation costs or termination benefits are recognised. Settlement gains and losses are recognised when the settlement occurs.

Remeasurements, representing returns on scheme assets excluding amounts included in interest and actuarial gains and losses, are recognised in other comprehensive income.

Defined contribution pension scheme

Contributions to the defined contribution scheme are expensed as they fall due.

(h) Interest payable

Interest is calculated using the effective interest method and recognised in profit or loss as incurred.

(i) Taxation

Current and deferred tax are recognised in the profit and loss account, except when they relate to items recognised directly in equity when the related tax is also recognised in equity. It includes tax relating to the overseas branches.

Current tax is the amount of income tax payable in respect of the taxable profit for the year, using tax rates that have been enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax is recognised on all timing differences at the balance sheet date except for certain exceptions. Timing differences are differences between taxable profits and total comprehensive income as stated in the accounts that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the accounts. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted at the balance sheet date that are expected to apply to the reversal of the timing difference.

(j) Intangible fixed assets

Software and other intangible assets are stated at cost less accumulated amortisation and any provisions for impairment. Amortisation is calculated to write off the cost of software on a straight-line basis at annual rates of 10% to 50%. Intangible assets are regularly reviewed for any indicators of impairment and if any such indication exists, the recoverable amount of the asset is calculated as the higher of fair value less costs of disposal and value in use and an impairment loss is recognised if the carrying amount exceeds the recoverable amount.

(k) Tangible fixed assets

Tangible assets are stated at cost less accumulated depreciation and any provisions for impairment.

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

Freehold and leasehold buildings	2% (or the lease term if shorter)
Plant and machinery	10% - 20%
Computer equipment	20% - 33%

(l) Government grants

Government grants related to expenditure on tangible fixed assets are credited to the profit and loss account at the same rate as the depreciation on the asset to which the grants relate. The unamortised balance of grants is included within creditors.

Notes to the accounts (continued)

3. Summary of significant accounting policies (continued)

(m) Leases

Operating leases rentals are charged to operating profit on a straight-line basis over the lease term, net of rent-free periods and similar incentives which are credited to operating profit on the same basis and over the same period.

(n) Investments

Investments in associates are held at cost less any accumulated impairment losses.

(o) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is calculated on a weighted average basis and finished goods and goods for resale includes attributable overheads.

(p) Basic financial instruments

Basic financial assets, including debtors, cash at bank and in hand and amounts owed by other Group companies, are initially recognised at transaction price and then subsequently at amortised cost less any provision for impairment.

Basic financial liabilities, including creditors and amounts owed to other Group companies, are initially recognised at transaction price and then subsequently at amortised cost.

(q) Derivative financial instruments and hedging activities

The Company has elected to adopt the recognition and measurement provisions of IAS 39 (as adopted by the European Union) and the disclosure provisions of FRS 102 in respect of financial instruments.

The currency exposure arising from sales and purchases and other receivables in currencies other than the functional currency is managed on behalf of the Company by the Parent Company. Derivatives used for these purposes are forward foreign exchange contracts, some of which are accounted for as cash flow hedges and some as other derivative instruments at fair value through profit or loss, and recognised at fair value which is estimated by discounting the future contractual cash flows using appropriate market-sourced data at the balance sheet date.

(r) Distributions

Dividends and other distributions are recognised in the statement of changes in equity and as a liability in the balance sheet in the period in which the dividends and other distributions are approved by the Company's shareholders.

4. Critical accounting judgements and estimation uncertainty

The preparation of accounts under FRS 102 requires the Company to make judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Except for judgements involved in estimations, no judgements have been made in the process of applying the Company's accounting policies that have had a significant effect on the amounts recognised in the accounts. The judgements involved in estimations have been reviewed to take account of the Company's latest assumptions of the likely impact of the COVID-19 pandemic. Significant estimates and assumptions made related to the following:

(a) Inventories

The Company estimates the net realisable value of inventories in order to determine the value of any provision required. In this estimation judgements are made in relation to the number of years of sales there are in inventories of each article and the value recoverable from those inventories. The Company bases its estimates on recent historical experience and knowledge of the products on hand. Based on sensitivity analyses performed, the Company does not expect the COVID-19 pandemic to have a material impact on the net realisable value of inventories.

(b) Pensions

The Company estimates the defined benefit pension scheme's deficit using assumptions that are based on historical experience and current trends supported by the expertise of external actuaries. These are described in Note 10 to the Group Accounts of the 2020 Electrocomponents plc Annual Report and Accounts.

5. Turnover

The Company has a single class of business being the multi-channel provision of industrial and electronic products and solutions. Turnover by geographical destination is as follows:

	2020	2019
	£m	£m
Europe	**749.9**	752.3
Asia	**85.4**	86.5
Rest of world	**69.6**	61.5
	904.9	900.3

Notes to the accounts (continued)

6. Reorganisation costs

The second phase to the Performance Improvement Plan (PIP) was launched in May 2018 and concluded during the year. It gave rise to redundancy and associated costs of £0.5 million (2019: £4.5 million).

7. Operating profit

Operating profit is stated after charging / (crediting):

	2020 £m	2019 £m
Fee payable to the Company's auditor for the audit of the accounts	**0.1**	0.1
Depreciation of tangible assets	**6.5**	5.6
Amortisation of intangible assets	**14.2**	14.1
Amortisation of government grants	**(0.1)**	(0.1)
Loss on foreign exchange	**0.4**	0.5
Operating lease rentals payable	**6.1**	9.0

8. Directors' remuneration

The Directors of the Company who are also directors of the Parent Company predominantly perform services for the Parent Company and are remunerated by the Parent Company. These Directors received no emoluments for their qualifying services to the Company.

The remuneration of other Directors of the Company were as follows:

	2020 Highest paid director £m	**2020 Other directors £m**	2019 Highest paid director £m	2019 Other directors £m
Aggregate remuneration	0.5	0.2	0.4	0.1

	Number of directors 2020	2019
Exercised share options in the Parent Company	**1**	1
Entitled to receive shares under the Parent Company's long term incentive schemes	**4**	2

The highest paid director received shares in the Parent Company as part of long term incentive schemes.

9. Employees

The average number of persons employed by the Company during the year was as follows:

	2020	2019
Management and administration	**357**	334
Distribution and marketing	**2,985**	2,806
	3,342	3,140

Employee costs charged to profit and loss were as follows:

	2020 £m	2019 £m
Wages and salaries	**87.9**	104.0
Social security costs	**10.9**	10.3
Share-based payments – equity-settled	**2.4**	5.4
Share-based payments – cash-settled	**1.0**	2.7
Defined contribution retirement benefit costs	**6.4**	2.8
Defined benefit retirement benefit costs	**5.6**	7.3
	114.2	132.5
Termination benefits	**1.0**	5.2
	115.2	137.7

Notes to the accounts (continued)

10. Share-based payments

The Group operates a number of share-based payment schemes for employees. The Company recognises an equity-settled share-based payment expense and a cash-settled share-based payment expense based on a reasonable allocation of the respective total expense of the Group that is based on the number of the Company's employees participating in each scheme and the number of awards made to them.

Long Term Incentive Plan (LTIP)

There are two active LTIPs: the 2016 LTIP and the 2019 LTIP. Under the LTIPs, awards of shares in Electrocomponents plc are made to plan participants subject to service conditions and performance conditions. At the vesting date, the share award will either vest, in full or in part, or expire depending on the outcome of the performance conditions. All awards have nil exercise price and receive accrued dividends on settlement.

Under the 2016 LTIP, awards are subject to a market performance condition based on Total Shareholder Return (TSR) of the Group versus a defined comparator group and non-market performance conditions based on cumulative growth in adjusted earnings per share (EPS) over the vesting period and Group return on capital employed (ROCE). They may include a further award (a multiplier) that vests if the Group achieves exceptional adjusted EPS performance over the vesting period.

Under the 2019 LTIP, awards are subject to a market performance condition based on TSR of the Group versus a defined comparator group and a non-market performance condition based on cumulative growth in adjusted EPS over the vesting period with a ROCE underpin.

Savings-Related Share Option Scheme (SAYE)

The SAYE scheme is available to the majority of employees employed at the time that the invitation period commences. The option price is based on the average market price of the Parent Company's shares over the three days prior to the offer, discounted by 20%. The option exercise conditions are the employee's continued employment for a three-year period and the maintenance of employee's regular monthly savings. Failure of either of these conditions is normally deemed a forfeiture of the option. Employees may subscribe to the three-year or five-year scheme. At the end of the period, the employee has six months to either purchase the shares at the agreed price, or withdraw their savings with accrued interest. There are no market conditions attached to the vesting of the options.

Deferred Share Bonus Plan (DSBP)

Under the DSBP, at least one-third of the total bonus earned by plan participants is awarded as shares in the Parent Company and deferred for two years, normally subject to the continued employment of the participant. There are no other performance conditions. The participants receive accrued dividends on vesting.

11. Interest payable

	2020	2019
	£m	£m
Interest payable to the Parent Company	**1.8**	1.3
Interest payable on bank overdrafts	**0.7**	0.8
	2.5	2.1

12. Tax on profit

	2020	2019
	£m	£m
Current tax		
Current tax on profits for the year	**13.5**	23.1
Adjustments for prior years	**(0.4)**	-
Total current tax	**13.1**	23.1
Deferred tax		
Origination and reversal of temporary differences	**1.9**	0.1
Changes in tax rates and laws	**0.2**	-
Adjustments for prior years	**0.1**	-
Total deferred tax	**2.2**	0.1
Tax on profit	**15.3**	23.2

Notes to the accounts (continued)

12. Tax on profit (continued)

The tax expense for the year can be reconciled to the profit and loss account as follows:

	2020	2019
	£m	£m
Profit before taxation	**125.5**	109.2
Expected tax charge at 19% (2019: 19%)	**23.8**	20.7
Effects of:		
Depreciation in excess of capital allowances	**-**	0.1
Other timing differences	**0.1**	0.3
Income not subject to tax	**(0.1)**	-
Movement in uncertain tax provisions in current year	**0.2**	4.3
Movement in uncertain tax provisions for prior years	**(6.4)**	(1.2)
Prior year adjustments	**(0.3)**	-
Utilisation of prior year losses	**(0.3)**	-
Group relief	**(1.7)**	(1.0)
	15.3	23.2

In March 2020, the UK government reversed the previous September 2016 enactment that changed the UK corporation tax rate from 19% to 17% effective from 1 April 2020. Therefore the UK deferred tax balances have been calculated at 19%.

13. Intangible assets

	Software
	£m
Cost	
At 1 April 2019	214.7
Additions	17.6
At 31 March 2020	232.3
Amortisation	
At 1 April 2019	178.1
Charged in the year	14.2
At 31 March 2020	192.3
Net book value	
At 31 March 2020	**40.0**
At 31 March 2019	36.6

14. Tangible assets

	Land and buildings	**Plant and machinery**	**Computer equipment**	**Total**
	£m	**£m**	**£m**	**£m**
Cost				
At 1 April 2019	31.8	107.8	53.0	192.6
Additions	-	3.5	7.5	11.0
Disposals	-	(0.1)	-	(0.1)
Reclassifications	-	(3.5)	3.5	-
Translation differences	-	(0.1)	(0.1)	(0.2)
At 31 March 2020	31.8	107.6	63.9	203.3
Depreciation				
At 1 April 2019	18.7	88.2	49.0	155.9
Charged in the year	0.4	3.1	3.0	6.5
Disposals	-	(0.1)	-	(0.1)
Reclassifications	-	(3.5)	3.5	-
Translation differences	-	-	(0.1)	(0.1)
At 31 March 2020	19.1	87.7	55.4	162.2
Net book value				
At 31 March 2020	**12.7**	**19.9**	**8.5**	**41.1**
At 31 March 2019	13.1	19.6	4.0	36.7

Notes to the accounts (continued)

15. Investments

The Company directly holds shares in a number of Group companies, owning up to 50% of each company and so accounts for these as associates.

The Company operates branch offices in South Africa and China (Taiwan).

The Company's related undertakings as at 31 March 2020 are set out below. All operate within their countries of incorporation.

Name and registered address of undertaking	Country of incorporation	% owned	Class of share held
Holding, Financing and Management Companies			
Electrocomponents U.K. Limited	UK	33.333%	Ordinary
Fifth Floor, Two Pancras Square, London N1C 4AG, UK			
Not currently trading			
Radiospares Limited	UK	50.000%	Ordinary
Fifth Floor, Two Pancras Square, London N1C 4AG, UK			

16. Inventories

	2020 £m	2019 £m
Raw materials and consumables	**75.0**	70.3
Finished goods and goods for resale	**163.5**	153.1
Gross inventories	**238.5**	223.4
Inventory provisions	**(19.0)**	(20.3)
Net inventories	**219.5**	203.1

During the year £2.2 million (2019: £3.9 million) was recognised as an expense relating to the write-down of inventories to net realisable value.

17. Debtors

	2020 £m	2019 £m
Amounts falling due after more than one year:		
Other debtors	**0.9**	3.0
Deferred tax (Note 22)	**3.6**	15.8
	4.5	18.8
Amounts falling due within one year:		
Trade debtors	**80.9**	80.2
Amounts owed by the Parent Company	**58.2**	57.9
Amounts owed by other Group companies	**107.2**	110.6
Other debtors	**1.3**	1.9
Other derivative assets (Note 20)	**3.7**	1.0
Corporation tax	**6.7**	-
Other taxation and social security	**0.2**	2.4
Prepayments and accrued income	**16.8**	14.8
	275.0	268.8

Trade debtors are stated after provisions for impairment of £1.5 million (2019: £0.6 million). The Company has historically experienced very low levels of trade debtors not being recovered. With the worsening macroeconomic environment due to COVID-19, the Company has increased its provisions for those types of customers that are most affected.

Amounts owed by the Parent Company and by other Group companies are unsecured, interest free and repayable on demand.

Notes to the accounts (continued)

18. Creditors: amounts falling due within one year

	2020	2019
	£m	£m
Trade creditors	**135.8**	148.8
Amounts owed to the Parent Company	**191.5**	85.9
Amounts owed to other Group companies	**0.1**	8.2
Other derivative liabilities (Note 20)	**0.9**	1.8
Corporation tax	**-**	10.4
Other taxation and social security	**1.7**	3.5
Government grants	**0.1**	0.1
Other creditors	**6.4**	6.0
Accruals	**29.4**	32.5
	365.9	297.2

Of the amounts owed to the Parent Company, which are repayable on demand and unsecured, £191.1 million bear interest based on the Bank of England base rate plus a margin of 0.8% and £0.4 million bear interest based on the 1-month Johannesburg Interbank Average Rate plus a margin of 1%. Amounts owed to other Group companies are unsecured, interest free and repayable on demand.

19. Creditors: amounts falling due after more than one year

	2020	2019
	£m	£m
Government grants	**1.1**	1.2
Other creditors	**1.4**	4.4
	2.5	5.6

20. Derivative financial instruments

	2020		2019	
	Debtors	**Creditors**	Debtors	Creditors
	£m	**£m**	£m	£m
Forward foreign exchange contracts designated as cash flow hedges	**2.6**	**(0.2)**	0.8	(1.7)
Forward foreign exchange contracts classified at fair value through profit or loss	**1.1**	**(0.7)**	0.2	(0.1)
	3.7	**(0.9)**	1.0	(1.8)

The Company uses forward foreign exchange contracts to hedge highly probable forecast transactions and designates these as cash flow hedges. The forecast cash flows are expected to occur evenly throughout the forecast period from the year end, which is between three and seven months, and will affect the profit and loss account in the period in which they occur.

For the year ended 31 March 2020, cash flow hedge losses of £0.5 million (2019: gains of £2.3 million) were reclassified from equity to inventories, cash flow hedge gains of £1.3 million (2019: £nil) reclassified from equity to profit or loss for the year and cash flow hedge gains of £2.9 million (2019: £2.7 million) were recognised directly in equity.

21. Provisions for liabilities and charges

	Reorganisation provision
	£m
At 1 April 2019	0.8
Charge for the year	0.7
Utilised	(1.3)
Released	(0.2)
At 31 March 2020	-

Notes to the accounts (continued)

22. Deferred tax

Deferred tax assets are attributable to the following:

	2020	2019
	£m	£m
Accelerated capital allowances	**1.4**	1.7
Retirement benefit obligations	**0.4**	11.8
Employee benefits	**1.6**	1.6
Other timing differences	**0.2**	0.7
Deferred tax asset (Note 17)	**3.6**	15.8

23. Operating lease commitments

Future minimum amounts payable under non-cancellable operating leases are:

	2020	2019
	£m	£m
Within one year	**6.6**	9.3
From one to five years	**16.2**	13.2
After five years	**3.3**	2.6
	26.1	25.1

24. Capital commitments

As at 31 March 2020, the Company is contractually committed to, but has not provided for, future capital expenditure of £5.7 million (2019: £0.6 million).

25. Share capital

	Number	£m
Issued and fully paid ordinary shares of £1.00 each:		
At 1 April 2019 and 31 March 2020	**50,000**	**0.1**

26. Dividends

During the year, the Company paid a final dividend of £150.0 million in respect of the year ended 31 March 2020 (2019: £100.0 million).

The Directors recommend the payment of a final ordinary dividend of £100.0 million for the year ended 31 March 2020 (2019: £150.0 million).

27. Contingent liabilities

The Company has entered into financial guarantee contracts to guarantee, jointly with another Electrocomponents Group company, the indebtedness of the Parent Company. The Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contracts as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Guarantees exist in respect of the Parent Company's private placement loan notes and syndicated multi-currency facility, up to a maximum of £350.0 million (2019: £337.2 million), of which £160.8 million (2019: £175.3 million) had been drawn down at the end of the year.

28. Related party transactions

The Company made sales of £2.3 million (2019: £2.2 million) to RS Components & Controls (India) Limited, a joint venture of the Group, and a balance of £0.9 million (2019: £0.7 million) was outstanding at the balance sheet date and included within Debtors: amounts falling due within one year - amounts owed by other Group companies (Note 17).

29. Controlling parties

The immediate and ultimate parent company and the smallest and largest group to consolidate these accounts is Electrocomponents plc. Copies of the Electrocomponents plc Annual Report and Accounts are available to the public and may be obtained from Fifth Floor, Two Pancras Square, London N1C 4AG, UK.