
FINAL NOTICE

To: **Eurodis Electron plc**

C/o **Neville Kahn and Nicholas Edwards**
Joint Administrators
Deloitte & Touche LLP
1 Stone Cutter Street
London EC4A 3TR

Date: 9 December 2005

TAKE NOTICE: The Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS ("the FSA") gives you a final notice about the publication of a statement censuring you:

ACTION:

The FSA gave Eurodis Electron plc ("Eurodis", or "the company", or "the group") a Decision Notice on 6 December 2005 notifying Eurodis that the FSA had decided, pursuant to section 91 of the Financial Services and Markets Act 2000 ("the Act"), to publish a statement censuring Eurodis for its breach of Listing Rule 9.2(a) in relation to:

- A 26 day delay of the company's announcement of 8 December 2003 concerning a change in its financial condition, such that its working capital position had deteriorated materially, evidenced by the fact that the Group needed to raise further funds for its working capital requirements, when a clean working capital statement was still in issue.

By failing to announce that change without delay, Eurodis contravened the continuing obligations under Listing Rule 9.2(a).

Eurodis confirmed on 30 November 2005 that it will not be referring the matter to the Financial Services and Markets Tribunal pursuant to section 92(7) of the Act.

Accordingly, for the reasons set out below and having agreed with Eurodis the facts and matters relied on, the FSA hereby publishes a statement in the form of this Final Notice censuring Eurodis for that contravention.

REASONS FOR ACTION

Background facts

1. Eurodis is a pan-European distributor of electronic components, computer products and systems to both the industrial and commercial markets. The company obtained a full listing on the London Stock Exchange in 1988. On 22 April 2003 Eurodis announced that it was in early stage discussions in relation to a potential offer for the company.
2. On the 8 August 2003 Eurodis announced a placing and open offer for 89,159,739 new ordinary shares at a deeply discounted price of 20 pence per share. The placing and open offer closed on 5 September 2003 and raised €22.9 million after expenses.
3. Eurodis released no profit and loss forecasts to the market during the relevant period from 8 August to 8 December 2003.
4. Dresdner Kleinwort Wasserstein ("DrKW") were corporate finance advisors to Eurodis throughout the relevant period from August to December 2003.
5. On 18 August 2003 Eurodis released a 'clean' working capital statement, i.e. a statement confirming that (provided the equity issue was completed successfully) the group had sufficient working capital for at least the next 12 months.

Facts relating to Eurodis' announcement of 24 October 2003

6. On Friday 24 October 2003 Eurodis released an announcement, which was divided into three sections plus a short summary. The first section, entitled 'Offer update', informed the market that the discussions regarding a potential offer for the company had ended. The second section, entitled 'Trading update', announced that the group's performance in the first financial quarter ended 31 August 2003 was, as anticipated, impacted by the funding position prior to the refinancing, and that the month of September was taken up in re-establishing a normal rate of product flow. In addition sales were recovering, although not at the rate originally expected.
7. The third section, entitled 'Working capital', was as follows:

"As with all turnarounds, working capital is a priority. We are seeking to tighten trade terms with our business partners and are encouraged by the level of support to date. We have, however, agreed the termination of the franchise agreement with Linear Technology Corporation, which has a current annual rate of turnover of approximately Euro 27 million, with effect from January 2004. We are also aiming to improve stock turns by leveraging the efficiency of our central purchasing and logistics, without compromising customer service."

8. Eurodis' share price following the announcement on 24 October 2003 was down 20.3% from the previous day.

Facts leading up to Eurodis' announcement of 8 December 2003

29 October 2003

9. On 29 October 2003 Eurodis engaged corporate recovery specialists to review the company's short term cash flow forecasts to identify the quantum and timing of its cash requirement, to review management's plans to address the short term liquidity shortfall, and to advise on solvency issues.

12 November 2003

10. The corporate recovery specialists made their first report to the Board on 12 November 2003. Eurodis required minimum 'headroom' (the amount of available facilities above the level of debt) of €8 - 10 million at the end of each month in order to meet its intra-month peak working capital requirement. The corporate recovery specialists reported that:
- The latest cash forecast showed negative headroom of €3.3 million at 31 December 2003;
 - Successful delivery of actions that Eurodis had already identified to improve headroom by €25.9 million remained uncertain;
 - *"Despite management actions there is a need to identify a minimum further €11m of cash before 31 December 2003";*
 - The forecast shortfall was €14.1 million, and the total amount of equity required to cover the forecast headroom shortfall, creditor push, loss of facilities and other contingencies was €39.1 million.
11. The Board reached the following conclusions at this meeting:
- A further equity fundraising was *"essential to underpin the Group's prospects of benefiting from a market upturn"*, as *"underlying capital structure inadequate to trade out of the impending cash shortfall"*.
 - Some of the planned actions were only short-term, and *"the longer term actions contemplated will reduce equity required not eliminate the need"*.
 - There was *"a viable business that could be turned around with an appropriate injection of capital"*.
 - *"The Board could be viewed as wrong if they placed the Group in receivership at this stage"*.
 - Eurodis wished to announce the equity fund raising before Christmas 2003.

13 to 25 November 2003

12. On Thursday 13 November 2003 Eurodis informed DrKW that it had made some progress with producing revised forecasts, which it still needed to discuss internally, and that equity was required. Eurodis said that the amount of equity required would depend on the forecast.
13. On Monday 17 November 2003 Eurodis emailed a schedule to DrKW showing a breakdown of the amount of equity required of €27 million (plus €10 million contingency headroom), which included €8m of minimum headroom and €7m of creditor strain. In this email Eurodis said they wished to discuss the fastest possible timetable for implementing this equity raising.
14. On 18 November 2003 Eurodis met with DrKW to discuss a possible timetable.
15. On 20 November 2003 the corporate recovery specialists attended the Board meeting and reported that despite all the planned actions the forecast headroom shortfall for December 2003 and January 2004 was €11-14 million. The report noted that Eurodis was now actively pursuing contingency plans, including deferring payments to non-critical trade suppliers and other creditors, such as tax payments due. The corporate recovery specialists noted that the ability to delay such payments and provide sufficient comfort to the creditors would depend on the progress made in pursuing the further equity injection.
16. At this meeting the Board acknowledged that *"Once equity injection announced Group will seek necessary accommodation from suppliers until cash injection is received"*. The report from the corporate recovery specialists to the Board stated that the situation needed to be monitored daily, and that the Board needed to be clear that, based on current knowledge:
 - *"The Group is not taking any further credit from suppliers without the suppliers being aware of the position;*
 - *The short term actions proposed will be sufficient to bridge the short term liquidity gap;*
 - *There is a long term viable business which can return to profitability;*
 - *The proposed fundraising is likely to be successful."*
17. During the relevant period, DrKW did not receive copies of any Board Minutes.

25 to 28 November 2003

18. On Tuesday 25 November 2003 Eurodis sent DrKW the cash update report dated 20 November 2003 that the Board had considered in its meeting five days earlier.
19. In a meeting in the afternoon of Tuesday 25 November 2003, the corporate recovery specialists met with both Eurodis and DrKW, and gave an oral summary of the latest

forecast headroom shortfall for December 2003 and January 2004. (A written report was produced after this meeting, on 27 November 2003.)

20. On Wednesday 26 November 2003 a Board meeting was held for the purpose of arranging to transfer funds from the Swedish company to other members of the group to improve liquidity. The minutes stated the Board's belief that Eurodis was;

"solvent, based on

- the current actions being undertaken to reduce the cash required for working capital together with*
- the expectation that a further equity fundraising will be successful to allow normal, viable, operation in the near future."*

21. On Thursday 27 November 2003 the corporate recovery specialists produced a further cash update report, in which they stated that:

- the forecast headroom shortfall had increased to €13-15 million after taking into account actions implemented by Eurodis that were expected to improve headroom by €25.7 million;
- the shortfall had increased since the previous week because of a further reduction in available facilities, lower forecast billings for November 2003, and because the estimated effect on headroom of the working capital actions had decreased;
- the cash flows did not include the estimated effect of €2.5 million from some planned actions as there remained doubt as to achievability. However the cashflows and headroom forecasts also did not take into account the negative effect of unavailable cash in transit of €2 - 4 million;
- in addition some doubt must exist as to the achievability of the remaining €20 million of planned actions that were included in the forecasts to bridge the short term liquidity gap until further funds were received;
- the review assumed an announcement of the equity fund raising in December 2003, and in a subsequent report they would calculate the impact on cash flows in the event that the announcement were deferred to January 2004, i.e. delaying receipt of the funds.

22. On Friday 28 November 2003 Eurodis forwarded to DrKW a copy of the corporate recovery specialists' cash update report dated 27 November 2003. On this day DrKW advised Eurodis to monitor its circumstances very closely to assess whether there had been a change from the position as at 24 October 2003, which would require an announcement.

1 and 2 December 2003

23. On Monday 1 December 2003 DrKW emailed a draft holding announcement for urgent consideration by the Board ahead of its meeting the following day. Over the course of several telephone conversations on 1 December 2003 and in the morning of 2 December 2003 DrKW advised Eurodis to review and finalise the holding

announcement, as if Eurodis decided it needed to release one, delay would be unacceptable. DrKW urged Eurodis to consider whether it should make an announcement to the market. On 2 December 2003, before the Board meeting DrKW informed Eurodis that it would be receiving a letter from DrKW to ensure that Eurodis discussed the holding announcement, and that it considered whether it needed to release it.

24. In its meeting on the morning of 2 December 2003 the Board acknowledged that its target date of 18 December 2003 for announcing the equity fundraising was tight, *"but with continuing difficult cash flow it was important to bring the announcement forward as soon as practicable"*. The Board discussed the report by the corporate recovery specialists, and believed that the critical period in December 2003 could be shifted to January 2004 by deferring certain payments. The Board *"agreed that the position remains very tight"* and that announcing the equity issue sooner rather than later would make it easier to manage the situation and defer supplier payments until the cash was received. The Board concluded that;

"Subject to

- making the equity issue and*
 - there being no material adverse impacts on cash flow in the interim,*
- the Group remains viable."*

25. The Board considered whether or not a trading statement should be made but concluded that the announcement of 24 October 2003 *"continued to reflect the current position, and the lower share price indicated the market had perceived the challenges"*. The Board acknowledged that the situation needed to be reviewed daily in case there was any adverse change in the company's plans, such as a refusal of support by its major shareholder.
26. Following this meeting Eurodis informed DrKW that in its view there had been no material change in financial condition since the 24 October announcement and that no further announcement was required. Eurodis tried to dissuade DrKW from putting DrKW's advice in writing. Over the course of further telephone conversations on Tuesday 2 December 2003 DrKW continued to advise Eurodis to consider whether or not an announcement should be made. Eurodis informed DrKW that it remained of the opinion that no announcement was required.

3 December 2003

27. On 3 December 2003 DrKW faxed a letter to Eurodis recording its advice that:

"I write to confirm that we consider that the Board may now be at the point that an announcement is required to update the market on the Group's working capital position and its need to seek a further equity issue."

"We will first speak to the UKLA [the UK Listing Authority] and give them all the facts in order to seek their view as to whether they consider that an

announcement obligation has arisen, notwithstanding the commercial damage that such an announcement could bring."

28. The fax also included a further draft announcement, which included a short section entitled 'Period end trading update' and a longer section entitled, 'Refinancing requirement'.
29. In a conference call that afternoon, Eurodis reiterated its view to DrKW that no announcement should be made, and that it was not necessary to discuss the position with the UKLA. This was on the basis of the current financial position compared to the position in October, and what Eurodis believed was the market's interpretation of the current position.
30. In this call Eurodis took the position that an announcement referring to liquidity problems would be likely to cause its suppliers to withdraw credit, which would probably force Eurodis to call in receivers within a matter of days. DrKW acknowledged the commercial ramifications of releasing such an announcement, but insisted that an approach be made to the UKLA in order to establish whether or not an announcement was required, and in the event that an announcement was required to determine whether an exemption (under Listing Rule 9.8) could be obtained on the grounds of prejudice to the company's interests. Eurodis agreed to the UKLA being contacted.

4 and 5 December 2003

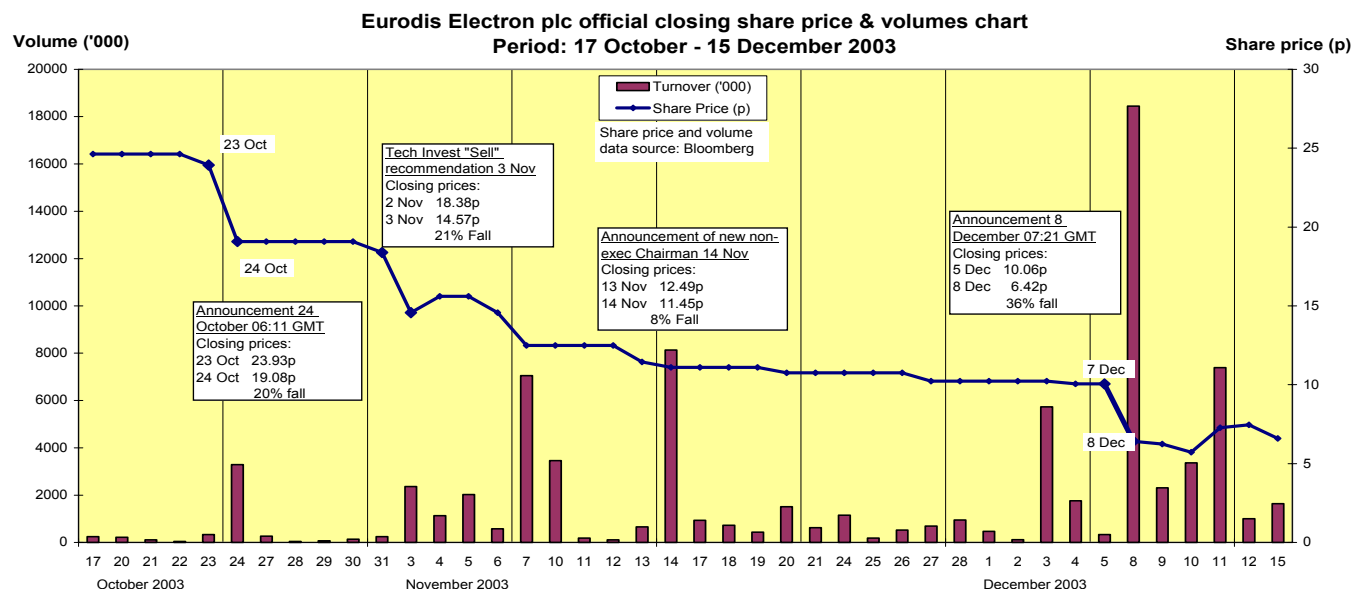
31. Over several telephone calls to the UKLA on Thursday 4 and Friday 5 December 2003, DrKW set out the views that Eurodis had presented to DrKW during the 3 December 2003 conference call. At the UKLA's request DrKW faxed a letter on 5 December 2003 which set out reasons why an announcement was not required. The UKLA responded that the company's financial condition had deteriorated materially, and a clean working capital statement was still in issue, which had not been qualified by the announcement of 24 October 2003. This was a change in financial condition that needed to be announced to the market immediately.
32. DrKW advised Eurodis on the evening of 5 December 2003 that the UKLA would suspend its shares on Monday 8 December 2003 if no announcement were released.

Release of announcement – 8 December 2003

33. On Monday 8 December 2003 at 07:01 Eurodis released a trading update, including the following comments:

*"As announced on 24 October 2003, working capital management remains a priority for the Board and considerable progress has been made in improving the Group's working capital utilisation. **Having reviewed the Group's requirements, including, inter alia, working capital implications of market growth, the Board has now concluded that it should raise additional equity and it has initiated discussions with its existing and potential shareholders to secure such finance in the next three months.**" (Emphasis added.)*

34. On the day of this announcement Eurodis' share price fell by 36% and 17.4 million shares were traded (compared to 2.98 million shares traded following the announcement on 24 October 2003).



RELEVANT STATUTORY PROVISIONS, RULES AND GUIDANCE

35. Pursuant to Part VI of the Act, the FSA makes the Listing Rules and is responsible for the official listing of securities in the UK. The Listing Rules set out the requirements for the admission of securities to the Official List and the continuing obligations of companies whose securities are so admitted.

Issuer's Continuing Obligations

36. A listed company is subject to continuing obligations under Chapter 9 of the Listing Rules in force at the relevant time.
37. Listing Rule 9.2 states that:

"A company must notify a Regulatory Information Service without delay of all relevant information which is not public knowledge concerning a change:

- a) In the company's financial condition;*
- b) In the performance of its business; or*
- c) In the company's expectations as to its performance;*

which, if made public, would be likely to lead to a substantial movement in the price of the company's listed securities. "

38. Where the FSA determines that a listed company has breached any provision of the Listing Rules, the FSA may impose a penalty under section 91 of the Act, and of such amount as it considers appropriate, or it may publish a statement censuring the listed company.

Relevant Guidance

39. In deciding to take this action, the FSA has had regard to the UKLA Guidance Manual ("the Manual"). Chapter 8 of the Manual sets out the factors relevant to the discipline of issuers.
40. Guidance has been made available to listed companies in order to assist them in meeting their obligations under the Listing Rules. The relevant guidance on Listing Rule disclosure obligations is contained in the Manual and was available to Eurodis at all material times during the relevant period. The following parts of the Manual are relevant to Eurodis' conduct:
- Appendix 2 – '*The PSI Guide, The UKLA's guidance on the dissemination of price sensitive information*', and in particular paragraphs 3.5 - 3.7, 5.8 and 5.9; and
 - Appendix 3 – '*The Continuing Obligations Guide, The UKLA's guide to the continuing obligations regime*', and in particular paragraphs 1.4 and 1.5.

REGULATORY CONCERNS

41. On the basis of the facts and events set out above concerning the 8 December 2003 announcement, the FSA has decided that Eurodis failed adequately to consider, and then failed to consider correctly its continuing obligations under Rule 9.2, and as a consequence it delayed the release of an announcement of a change in its financial condition under Rule 9.2(a) by a period of 26 days. The reasons for this decision, in summary, are:
- By the time of Eurodis' Board meeting on 12 November 2003 the company's working capital position had deteriorated materially since releasing a clean working capital statement approximately four months earlier. This is evidenced by the fact that Eurodis decided that it needed to raise further funds for its working capital requirements within the 12 month confirmation period. This amounts to a change in the company's financial condition within the meaning of Rule 9.2(a).
 - The interim announcement of 24 October 2003 did not state that Eurodis had experienced a deterioration in its working capital position, or that a further fundraising may be required, and therefore Eurodis could not rely upon this announcement to justify its failure to release a further announcement without delay.
 - Between 12 and 27 November 2003 Eurodis failed adequately to consider its continuing obligations. Eurodis' focus was to be in a position to announce

the launch of a second equity fundraising, which it hoped would solve the liquidity problem, and to do so before Christmas 2003.

- Between 28 November and 5 December 2003 Eurodis reiterated its view that no obligation to announce had arisen, in spite of discussion with its advisor during this period (see paragraphs 22 to 32 above). Eurodis failed to address the material change that had occurred, i.e. the deterioration in its working capital position, and told its advisor that in Eurodis' opinion, there had been no change in its financial position. Furthermore Eurodis claimed that the announcement of 24 October 2003 'covered' the fact that a further fundraising was likely, relying not on the text of that announcement, but based on the knowledge that certain analysts and certain institutional shareholders had drawn that conclusion following the announcement, and comments made by certain shareholders at the Annual General Meeting held on 28 October 2003.
- This change in Eurodis' financial condition on 12 November 2003 was one that had it been announced on that day would have been likely to lead to a substantial movement in the company's share price. When this change was finally announced on 8 December 2003, a significant drop of 36% in Eurodis' share price occurred. Both the volume of shares traded and the percentage drop in share price following the announcement on 8 December 2003 were significantly higher than the change following the announcement of 24 October 2003.

SANCTION

42. In all of the circumstances of this case, and having regard to the factors set out in paragraphs 43 to 51 below, the FSA has concluded that a public censure of Eurodis is the appropriate and proportionate penalty. The FSA would have imposed a substantial financial penalty on Eurodis in this action, had it not been for Eurodis' lack of financial resources.

Policy and guidance

43. The FSA's policy on the imposition of financial penalties and public censures is set out in Chapter 8 of the Manual. The principal purpose of financial penalties is to promote high standards of regulatory conduct by deterring those who have breached regulatory requirements from committing further contraventions, and by demonstrating generally the benefits of compliant behaviour. The criteria for determining whether it is appropriate to issue a public censure are similar to those for financial penalties. On the basis of the facts and events above, the FSA has taken into account the following factors under section 8.8 of the Manual in arriving at the sanction in this action:

Seriousness of conduct:

44. The seriousness of Eurodis' conduct is demonstrated by its failure adequately to consider its continuing obligations over a lengthy period, and in the face of a significant change in its financial condition.

45. Furthermore, when the Eurodis Board did consider its obligations, it failed to consider correctly the relevant factors in assessing compliance with their obligations, and therefore failed to recognise that the deterioration of the working capital situation itself represented a change in its financial condition. Instead Eurodis simply focused on the solution to the liquidity problem (i.e. refinancing), and hoped only to release a further announcement once the success of the second equity fundraising was assured.

Conduct before Breach:

46. The FSA has taken into account the fact that during the relevant period Eurodis was receiving separate advice from both its solicitors and its corporate finance advisors (DrKW).
47. However, with respect to seeking advice from DrKW, although Eurodis was in dialogue with DrKW during this period, the FSA has taken into account that Eurodis did not keep DrKW fully informed at all times. For example, Eurodis did not provide its Board minutes to DrKW, and it was not until the later stages of the company's delay (25-27 November 2003) that DrKW met the corporate recovery specialists or received their reports. These reports had been provided to Eurodis weekly since 12 November 2003.
48. The FSA has also taken into account the fact that Eurodis did not act directly against any specific advice that it must announce. However, the FSA notes that Eurodis argued with DrKW over the possible reasons for an announcement after it had been advised repeatedly, both orally and in writing, to consider whether an obligation to announce had arisen. Eurodis maintained the view that no announcement was required even after the UKLA's involvement. This conduct contributed to the company's delay in making an announcement.

Conduct after breach:

Eurodis did not bring its contravention of the Listing Rules to the attention of the FSA. It has, however, cooperated fully with the FSA's investigation and the FSA has taken into account Eurodis' willingness to reach settlement of this proposed action.

Disciplinary history

49. Eurodis' disciplinary history includes two previous Listing Rule breaches.

Previous action by the FSA in precedent cases

50. Action taken by the FSA in the most relevant previous Listing Rule cases has resulted in financial penalties ranging from £90,000 to £450,000. One case would have resulted in a financial penalty had it not been for the company's lack of financial resources following its entry into Administrative Receivership. Two of the cases dealt with breaches under Rule 9.2 and involved a lengthy delay. It is the FSA's policy to decide all such cases on a consistent basis.

51. Since 15 July 2005 Eurodis has been in Administration. The FSA has received from the Administrators a statement of Eurodis' financial position to the effect that it has no means with which to pay a financial penalty.

DECISION MAKER

The decision which gave rise to the obligation to give this Final Notice was made by the Executive Settlement Decision Makers on behalf of the FSA.

IMPORTANT

This Final Notice is given to Eurodis in accordance with section 390 of the Act.

Publicity

Section 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the FSA must publish such information about the matter to which this notice relates as the FSA considers appropriate. The information may be published in such manner as the FSA considers appropriate. However, the FSA may not publish information if such publication would, in the opinion of the FSA, be unfair to you or prejudicial to the interests of consumers.

The FSA intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

FSA contacts

For more information concerning this matter generally, you should contact Dianne Bell (Tel: 0207 066 0586) or Rebekah Cain (Tel: 0207 066 4460) of the Enforcement Division of the FSA.

Carlos Conceicao
Head of Wholesale
FSA Enforcement Division