

## Report of the Directors

The Directors present their report on the affairs of the Group together with the audited accounts for the year ended 31 March 2003.

### Principal activity

The principal activity of the Group is the distribution of electronic, electrical and industrial supplies and services to industrial and commercial customers, through its 26 Operations and Distribution channels. Significant events during the year are detailed in the reports of the Chairman, the Group Chief Executive, the Chief Process Officer and the Financial Review on pages 10 to 23.

### Results and dividends

Results for the year are set out in the consolidated profit and loss account on page 38. An analysis of turnover, profit and net assets by activity is shown in note 2 on pages 43 and 44. The Directors recommend a final dividend of 11.75p per ordinary share, to be paid, if approved, on 24 July 2003 which, together with the interim dividend of 5.25p per share paid in January, amounts to 17.0p for the year (2002: 15.9p).

### Corporate governance

The Company applies the Principles of Good Governance and Code of Best Practice as appended to the Listing Rules of the UK Listing Authority (the Combined Code). Section 1 of the Combined Code establishes 14 principles of good governance in four areas: Directors; Remuneration of Directors; Relations with Shareholders; and Accountability and Audit. The following three sections explain how these principles have been applied. A detailed report on Directors' Remuneration can be found on pages 30 to 34. Following the disclosure guidelines from the Association of British Insurers, the Board has, this year, reported on Corporate Social Responsibility in a separate section. This can be found on pages 35 and 36.

### Directors

The Board comprises the Chairman, who is part-time, three Executive Directors and six independent Non-Executive Directors. In the opinion of the Board all the Non-Executive Directors are independent of management and free from any business or other relationships which could interfere with the exercise of their judgement. Biographical details of the Directors at the date of this report are set out on pages 24 and 25 together with details of their membership of Board Committees.

Directors' interests in the shares of the Company are shown on pages 27 and 34.

Board meetings are held monthly except in January and August and the Board is responsible for overall Group strategy, acquisition and disposal policies and the approval of major investment proposals. The Board discusses and agrees strategic plans, reviews forecasts and evaluates Group and subsidiary performance. Comprehensive and relevant Board papers are provided to Directors well in advance of meetings. On a regular basis, the Board visits operating units both in the UK and overseas and receives presentations from senior staff.

**Retirement by rotation** Mr Hewitt, Mr Temple and Mr Barker retire by rotation at the forthcoming Annual General Meeting in accordance with the Company's Articles of Association and, being eligible, offer themselves for re-election. Mr Hewitt has a one year rolling contract but Mr Temple and Mr Barker do not have service contracts.

**Board committees** The Board has a number of standing committees consisting of certain Directors, and in the case of the Treasury Committee, certain senior managers, to which specific responsibilities have been delegated and for which written terms of reference have been agreed. Membership of the various Committees, including the Chairman of each Committee is shown on pages 24 and 25.

THE EXECUTIVE DIRECTORS' COMMITTEE consists of the Executive Directors. The Committee meets at least monthly and manages the day-to-day activities of the Group.

THE AUDIT COMMITTEE consists of five Non-Executive Directors. It meets three times a year and more frequently if required. The Committee assists the Board in its duties regarding financial statements and reviews the operation of internal financial controls with the internal and, where applicable, external auditors. It also reviews the scope and results of the audit with the external auditors and the results of the work of the internal operational auditors.

THE TREASURY COMMITTEE consists of the Group Chief Executive, the Group Finance Director, the Chief Process Officer, the Group Treasurer, the Group Controlling Officer and the Company Secretary and sets detailed treasury policy for the Group within guidelines established by the Board. The Committee meets as required.

THE REMUNERATION COMMITTEE consists of all the Non-Executive Directors. It meets as required and is responsible for all aspects of the remuneration of Executive Directors. Details of the remuneration policy and of the remuneration of each Director are set out on pages 30 to 34 in the Remuneration report.

THE NOMINATION COMMITTEE consists of the Chairman and all the Non-Executive Directors. The Committee meets as required and recommends to the Board candidates for appointment as Executive and Non-Executive Directors of the Company.

### Directors' interests in shares

The beneficial interests of the Directors in the shares of the Company are set out in the table below. The Directors have no non-beneficial interests.

	31 MARCH 2003	31 MARCH 2002
L Atkinson	2,260	2,260
T G Barker	11,000	7,000
R B Butler	37,136	16,928
K Hamill	5,183	1,883
J L Hewitt	75,382	39,780
R A Lawson	403,374	338,447
F D Lennertz	6,530	6,530
I Mason	36,136	18,815
N J Temple	7,040	7,040
D S Winterbottom	3,108	3,108

#### Notes

As at 31 March 2003 the Electrocomponents Qualifying Employee Share Ownership Trust (the "Quest") and the Electrocomponents Employee Trust (the "EET") (together the "Trusts") held 41,513 and 308,417 shares respectively. Because Executive Directors are potential beneficiaries of the Trusts, they are treated for Company Law purposes as being interested in the shares held in the Trusts.

Directors' interests in Incentive Plans and Share Options are disclosed on page 34.

Up to 20 May 2003 there have been no changes in the Directors' interests or rights to subscribe for shares.

#### Relations with shareholders

Executive Directors and senior executives have frequent discussions with institutional shareholders on a range of issues affecting the Group's performance, which include meetings following the announcement of the annual and interim results. The Company also has a website ([www.electrocomponents.com](http://www.electrocomponents.com)) which contains up-to-date information on Group activities.

All shareholders, including private investors, have an opportunity at the Annual General Meeting to participate in discussions with the Board on matters relating to the Group's operation and performance. The Company seeks to ensure that the Directors and Chairmen of the relevant Board Committees are available to answer questions at the Annual General Meeting.

#### Accountability and audit

In its financial reporting to shareholders and other interested parties, by means of annual and interim results and periodic statements, the Board aims to present a balanced and easily understandable assessment of the Group's position and prospects.

**Internal control** The Combined Code places a requirement on Directors to review at least annually the effectiveness of the Group's system of internal control and to report to shareholders that they have done so.

An ongoing process of risk management and internal control in accordance with the Turnbull Committee Guidance on internal control has been established across the Group. This includes a formal report to the Board twice per annum.

The Board is responsible for the effectiveness of the Group's system of internal control. The system of internal control has been designed and implemented to meet the particular requirements of the Group and the risks to which it is exposed. The internal control system can provide reasonable but not absolute assurance against material misstatement or loss.

The processes to identify, assess and manage the risks to the Group's continued success are an integral part of the system of internal control. These processes include systems to assess operational risks, the monthly forecasting procedure, the management of the key projects and the appointment of senior managers and controls over capital expenditure.

**Internal financial controls** Internal financial controls represent the systems employed by the Directors to enable them to discharge their responsibility for financial matters. Those responsibilities are noted on page 29. The main financial control elements are described below.

Clear terms of reference set out the duties of the Board and its committees, with delegation of operating responsibility through the Executive Directors' Committee to management in all locations. Operating Company controls are detailed in Group Finance and Group Treasury manuals that specify the controls necessary in identified areas of key financial risk. Smaller Group companies are supported by Group and divisional specialists in key areas.

Financial reporting systems are comprehensive and include weekly, monthly and annual reporting cycles. Monthly management accounts together with updated forecasts are prepared by all operating companies and Group Processes. These are compared against previous month forecasts and last year actuals and variances are reviewed by the Executive Directors' Committee and by the Board. Specific reporting systems cover Treasury operations, major investment projects and legal and insurance activities, which are reviewed by the Board and its Committees on a regular basis.

The Group has a team of internal operational auditors which has an annually agreed audit programme approved by the Audit Committee. The team reports regularly to the Audit Committee on the results of audits performed and reviews self-certification internal control questionnaires completed by operating management.

The Board and the Audit Committee have reviewed the effectiveness of the Group's system of internal control and internal financial control during the period covered by this report.

**Audit independence** The Audit Committee and Board put great emphasis on the objectivity of our auditors KPMG Audit Plc in their reporting to shareholders.

The Audit Committee met four times during the year and senior representation from KPMG is present at these meetings to ensure full communication.

## Report of the Directors (continued)

The overall performance of the auditors is reviewed annually by the Audit Committee, taking into account the views of management, and this is reported to senior members of the audit team. This forms part of KPMG's own system of quality control. The Audit Committee also has discussions with the auditors, without management being present, on the adequacy of controls and on any judgemental areas.

The scope of the year's audit is discussed in advance by the Audit Committee. Audit fees are reviewed by the Audit Committee after discussions between the Operating Companies and the local KPMG offices and a review by Group management and are then recommended to the Board for approval. Professional rules require rotation of the Group Engagement Director. Rotation of other individuals within the audit teams is actively encouraged and has taken place. The current Director has held his role for four years following the last rotation.

The annual appointment of our auditors by the shareholders at the Annual General Meeting is a fundamental safeguard, but beyond this, controls have been in place for some years to ensure that additional work performed by the auditors is appropriate and subject to proper review.

Non-audit assignments undertaken by KPMG and its affiliates have been, and are subject to, controls by management that have been agreed by the Audit Committee in order to provide additional assurance that auditor independence is not compromised.

The procedures are:

**Audit-related services:** As auditors, this is the main area of work of KPMG. Where appropriate, if any additional accounting support is required then this is considered subject to a competitive proposal.

**Tax:** In cases where they are best suited, we use KPMG, but the Group also uses other tax consultancies. Significant pieces of tax work are put out to competitive tender.

**Other:** All significant projects are put out to competitive tenders. In relation to such work that has taken place in the Group in recent years, KPMG has had only a small part.

The Group Finance Director is made aware of KPMG work anywhere in the Group in excess of a predetermined low level. As part of his review he ensures that other potential providers of the services have been adequately considered. The level of audit and non-audit fees charged by KPMG and its affiliates is set out in note 4 to the accounts on page 44.

**Going concern** After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

### Compliance with the Combined Code

During the year ended 31 March 2003, the Company complied with the provisions set out in Section 1 of the Combined Code.

### Payment to suppliers

The Group agrees terms and conditions for its business transactions with suppliers. Payment is then made according to these terms, subject to the supplier fulfilling its obligations. The Company has no trade creditors. Supplier payment days for the continuing operations of the Group outstanding at 31 March 2003 represent 39 days (2002: 34 days) of average purchases.

### Employment policies

The Group values highly the commitment of its employees and has maintained its practice of communicating business developments to them wherever practicable. Regular staff appraisals and consultations take place with individuals and the employees' representatives. The Group remains supportive of the employment and advancement of disabled persons.

### Capital Gains Tax

For Capital Gains Tax purposes the valuation of the Company's 10p ordinary shares at 5 April 1982 was 40p.

### Substantial shareholders

As at 20 May 2003, the following substantial shareholdings had been notified to the Company:

	NUMBER OF SHARES	PERCENTAGE HELD
Sprucegrove Investment Management Ltd.	23,171,240	5.32%
Prudential plc	20,458,309	4.70%
The Capital Group of Companies, Inc.	17,745,953	4.08%
Legal & General Investment Management Limited	14,945,977	3.43%
T. Rowe Price International Inc.	13,135,339	3.02%

As far as the Directors are aware there were no other notifiable interests.

### Share capital

Full details of share options and shares issued under the terms of the Company's share schemes can be found in notes 29 and 30 to the accounts on page 55.

### Political and charitable contributions

The Group made no political contributions during the year. Charitable contributions within the UK amounted to £30,447 (2002: £22,882) and outside the UK amounted to £14,768 (2002: £39,413).

### Annual General Meeting

The Notice of the Annual General Meeting, which will be held at 12 noon on Friday 18 July 2003 at the Company's premises, The International Management Centre, 5000 Oxford Business Park South, Oxford, OX4 2BH, is set out on page 59.

In addition to conducting the ordinary business, the following special business will be considered:

**RENEWAL OF DIRECTORS' AUTHORITY FOR THE PURCHASE BY THE COMPANY OF ITS OWN SHARES:** This resolution will authorise market purchases of up to 43,520,665 ordinary shares (being approximately 10% of the issued share capital as at 20 May 2003), subject to a maximum price of 105% of the average of the market values of the shares for the five business days preceding any purchase and a minimum price of 10p per share. The Directors will only exercise this authority when satisfied it is in the best interests of shareholders and any purchase will have a beneficial impact on earnings per share, having first considered other investment opportunities open to the Company. Your Directors expect to ask shareholders to approve renewal of the authority each year. 12,608,689 options to subscribe for equity shares were outstanding as at 20 May 2003, representing 2.90% of the issued share capital. If this resolution is passed and the full authority to buy back shares is used, then outstanding options to subscribe for equity shares will represent 3.22% of the issued share capital.

By order of the Board

**Carmelina Carfora**

Company Secretary

29 May 2003

### Directors' responsibility for the financial statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.