

## Remuneration report

### Remuneration Committee

#### Role and membership

The long-established Remuneration Committee is responsible for recommending overall remuneration policy in respect of the Executive Directors. The Committee was chaired during the year by Dr Leslie Atkinson. The other members of the Committee over the year were Mr Tim Barker, Mr Keith Hamill, Dr Dieter Lennertz, Mr Nick Temple and Mr David Winterbottom, all of whom are independent Non-Executive Directors.

The Board as a whole determines the remuneration of the Chairman and the Non-Executive Directors.

During the year ended 31 March 2003 the Committee adhered to the principles and provisions of the Combined Code as it applied during that year. In preparing this Report, the Board has followed the provisions of Schedule B of the Combined Code.

#### Advisers

Since 1 April 2002, Kepler Associates and Buck Consultants have provided data for salary reviews for the Executive Directors and senior managers. Kepler Associates have also provided independent market information on the design of the new Long Term Incentive Share Option Plan. The Committee has also sought advice from Mercer Human Resource Consulting with respect to pension matters. These advisers have been appointed by the Remuneration Committee. The Chairman and Chief Executive Officer attended meetings by invitation to respond to specific questions raised by the Committee and on matters relating to the performance and remuneration of senior managers. The Company Secretary acts as Secretary to the Committee.

### Remuneration Policy

#### Executive Directors

The objectives of the remuneration policy for Executive Directors are to provide a remuneration package which is competitive and performance-linked, to ensure that the Group is managed by executives who have the experience, skills and talents to operate and develop its businesses to their maximum potential, thereby delivering the highest level of return for shareholders.

The components of the remuneration package for Executive Directors are:

Performance Related	Non-Performance Related
<ul style="list-style-type: none"> <li>• Basic Salary.</li> <li>• Annual Bonus.</li> <li>• Long Term Incentive.</li> </ul>	<ul style="list-style-type: none"> <li>• Pension.</li> <li>• Other Benefits such as health insurance.</li> </ul>

The Committee strives to ensure that shareholders' interests are best served by creating an approximately equal balance between basic salary and the expected values of the performance-related incentives. Additionally, the Committee reviews annually the remuneration practices of other companies and the recommendations of key institutional shareholder groups, such as the Association of British Insurers, to ensure that the Company's policies are consistent with best practice.

A new bonus plan and the Long Term Incentive Share Option Plan ("LTIOIP") were introduced during the year. The LTIOIP proposals were approved by shareholders at the AGM in July 2002.

#### The Chairman and Non-Executive Directors

Remuneration comprises an annual salary for acting as Chairman or an annual fee for the Non-Executive Directors of the Company and an additional fee is paid to the Chairman of a Board Committee. They do not participate in the Company's incentive schemes, or annual bonus schemes, nor do they accrue any pension entitlement.

No Non-Executive Directors have service contracts with the Company.

The Chairman has the use of a Company car and mobile phone. Details of his service contract are set out on page 32 of this report.

### Remuneration Components for Executive Directors

#### Basic salary

In determining salary levels, the Committee takes into account comparable information for similar job functions in industrial service companies and other companies of a similar size. Allowance is made for the international spread and competitive nature of the Group's businesses and for the individual's experience, performance and contribution in the areas for which responsibility is held. Regard is also taken of salary levels throughout the Group.

### Incentive Arrangements

#### Annual Bonus Plan

A new Annual Bonus Plan was implemented during the year with the aim of ensuring that the incentives for senior managers and Executive Directors are more closely aligned to business performance. The same target-setting principles are used for all participants in the plan, with both financial and operational measures applied to assess progress towards a common long term objective.

The bonus plan is based on the achievement of targets which are revised on an annual basis and reflect market conditions as well as strategic and operational factors. The Remuneration Committee has discretion to vary bonus payments for each Executive Director based on performance. The current maximum bonus payable is 60% of salary.

Annual bonus payments are not pensionable.

#### Long Term Incentive Share Option Plan ("LTIOIP")

The LTIOIP, which replaced all other long term incentive schemes (other than the Savings Related Share Option Scheme), was approved by shareholders in July 2002 and is designed to align long term incentives with the interests of shareholders. Participation in the plan extends to Executive Directors and senior managers.

Under the terms of the plan, participants may be awarded options with a ten-year life subject to stretching performance conditions based on total shareholder return ("TSR") (share price growth plus reinvested dividends), with no options vesting unless performance is above the median for the selected comparator group of 13 other companies, and full vesting only if Electrocomponents is first out of 14 in terms of TSR. TSR was chosen as the measure most closely aligned with shareholder value.

Options over a total of 6,516,115 ordinary shares were granted on 22 August 2002. Of these options, 6,244,515 were granted at an exercise price of 312p per share and 271,600 were granted at an exercise price of 324p per share.

TSR performance will be measured over a minimum period of three years from the date of grant but, if the target is not met, the period will be extended to four, and then five, years. Once the target has been met in part, however, performance will not subsequently be retested and the unvested part of the option will lapse. If the target has not been met at the end of five years, the option will lapse.

For performance at or below median, no part of the option will vest. 25% of the option will vest for performance of one position above the median with full vesting if the Company is ranked first in the Comparator Group selected. Between those two levels the option will vest on a sliding scale.

The Comparator Group for the grant made in 2002 comprised:

Arrow Electronic Industries Inc	Manutan International
Avnet Inc	Misumi Corporation
Brambles Industries plc	Premier Farnell plc
Buhrmann NV	Rexel SA
Daetwyler Holdings AG	Takkt AG
Grainger (WW)	Wolseley plc
Hagemeyer NV	

The mix of companies chosen reflects the business and geographic focus of the Group around the world. The Committee reviewed a range of benchmarks but found this Comparator Group, which includes our closest peers, to be the most appropriate.

It is anticipated that awards will be made in 2003 on the same terms and using the same Comparator Group.

#### **Long Term Incentive Plan ("LTIP")**

No further awards have been made under the LTIP since June 2001, as it has been replaced by the LTIP. Under the LTIP, Executive Directors were granted an annual award comprising a deferred right to receive a number of ordinary shares in the Company.

Each LTIP award was subject to a performance condition, set when the award was granted, which determines whether and to what extent the participant would receive shares at the end of a period of three years. The Company's TSR performance is measured against that of a Comparator Group, comprising companies with a similar market capitalisation. No shares are released unless performance is above median performance within the Comparator Group. In addition, no part of the award is released unless the Remuneration Committee is satisfied that there has been an underlying improvement in the Company's financial performance over the same period.

For awards granted in June 2000 and 2001, the performance target was based on a three-year comparison of the Company's TSR with that of the companies listed between 76th and 125th by market capitalisation on the London Stock Exchange immediately prior to the date of the award. This Comparator Group was chosen by the Remuneration Committee as it considered that the companies comprising the Comparator Group provided an appropriate benchmark for assessing the Company's performance. An award is released in full if the Company is ranked in the top 20% of the Comparator Group. A ranking at one place above the median level allows 35% of the award to be released with pro-rata vesting between those points. No award is released if the Company is ranked on or below the median.

For the 1999 LTIP award, Electrocomponents' TSR performance was ranked 15th out of 38, which resulted in 56.7% of the award vesting against the TSR criterion. As described in last year's report, retention of the shares released on the vesting of the awards was made subject to continued employment of the participants until June 2005. Details of the shares are disclosed in the Directors' Interests table shown on page 34.

#### **1988 Executive Share Option Scheme ("ESOS")**

Mr Butler, Mr Lawson and Mr Mason hold outstanding options under the Company's 1988 Executive Share Option Scheme. The Remuneration Committee determined that in any one year an executive should not receive an award from both ESOS and LTIP and as a consequence the last ESOS award was made to the Executive Directors and Chairman in 1995. These options were not subject to performance conditions, in keeping with market practice at that time, but were subject to minimum holding periods of three, five or seven years before they could be exercised. No further awards will be granted under this scheme.

#### **Savings Related Share Option Scheme**

Executive Directors can participate in the Savings Related Share Option Scheme which is open to all UK employees or, if appropriate, the International Savings Related Share Option Scheme. Performance conditions have not been imposed as they are not permissible under UK Inland Revenue rules for this type of scheme.

#### **Electrocomponents Group Pension Scheme**

Executive Directors participate in the Electrocomponents Group Pension Scheme, which provides defined benefits on retirement. Pensionable salary is limited to basic salary, excluding all bonuses and other benefits. The pension accrual rate for Executive Directors is one-thirtieth for each year of service, subject to Inland Revenue restrictions.

Normal retirement age for Executive Directors is 60. The Electrocomponents Group Pension Scheme is a funded pension arrangement providing a pension on retirement of up to two-thirds of pensionable earnings, or the "earnings cap" if lower. No actuarial reduction will be applied to pension benefits accrued prior to 1 April 2003 if retirement is from age 55 or later. For death before retirement, a capital sum equal to four times basic salary is payable together with a spouse's pension of two-thirds of the member's prospective pension at age 60 and children's pensions if appropriate. For death in retirement, a spouse's pension of two-thirds of the member's pre-commutation pension is payable. Pensions in payment or in deferment are guaranteed to increase annually in February by the lesser of 5% or the increase in the RPI. Additional increases are payable at the discretion of the Company and the Trustee of the Scheme.

## Remuneration report (continued)

All Scheme benefits are subject to Inland Revenue limits. Where such limitation is due to the “earnings cap”, arrangements may be agreed with individuals to compensate them for the reduction in benefits, either by salary supplement or through a funded unapproved retirement benefits scheme.

Mr Lawson is a deferred member of the Electrocomponents Group Pension Scheme and continues to receive life insurance cover. The value of the life insurance benefit for Mr Lawson is included in the amount shown on page 33.

Mr Hewitt has elected to receive part of his additional entitlement as contributions to a funded unapproved retirement benefit scheme together with a salary supplement in lieu of part of his unapproved pension entitlement. Mr Mason has elected to receive a salary supplement in lieu of all of his unapproved pension entitlement. Salary supplements for both Messrs Hewitt and Mason are included in the table shown on page 33. Mr Butler’s pension entitlement will be met from the Electrocomponents Group Pension Scheme in full.

During the year, a review of the levels of compensation agreed with Mr Mason and Mr Hewitt for the restrictions placed on their pension entitlements due to the “earnings cap” was carried out in conjunction with Mercer Human Resource Consulting. At the time of joining, the level of compensation to be made available took account of assumptions for future salary increases in line with the assumptions used for actuarial valuations of the Electrocomponents Group Pension Scheme. The purpose of the review was to ensure that the pension element of compensation was appropriate after taking account of unforeseen salary increases associated with promotion. The review indicated that a shortfall had developed between the compensation received and their entitlement had the original assumptions accurately reflected their actual increase in basic salary. As a result, one-off payments were made available to Mr Mason and Mr Hewitt during the year. Mr Mason elected to receive his adjustment in the form of a salary supplement and the amount is included in the table on page 33. Mr Hewitt elected to receive his adjustment as a contribution to a funded unapproved retirement benefits scheme and this figure is reflected in the notes to the table on page 33. There is no expectation of, or intention to conduct, further reviews in the future.

The following table gives details for each Director of:

- The annual accrued pension payable from normal retirement age, calculated as if he had left service at the year end i.e. 31 March 2003.
- The increase in accrued pension attributable to service as a Director during the year.
- The transfer value of the accrued benefit at the year end.
- The transfer value of the accrued benefit at the previous year end.
- The increase in the transfer value over the period.

These amounts exclude any (i) benefits attributable to additional voluntary contributions; and (ii) actual members’ contributions.

### Disclosure of Directors’ Pension Benefits for the year ended 31 March 2003 (audited)

	AGE AT 31 MARCH 2003 YEARS	ACCRUED PENSION AS AT 31 MARCH 2003 <sup>b</sup> £	INCREASE IN ACCRUED PENSION BENEFITS £	TRANSFER VALUE AS AT 31 MARCH 2003 <sup>c</sup> £	TRANSFER VALUE AS AT 31 MARCH 2002 £	INCREASE IN TRANSFER VALUE LESS DIRECTORS’ CONTRIBUTIONS <sup>d</sup> £
R B Butler	43	114,941	17,503	954,000	771,000	166,300
J L Hewitt <sup>e</sup>	55	10,260	1,780	157,000	118,000	34,035
R A Lawson <sup>a</sup>	58	69,905	1,835	1,239,000	1,067,000	172,000
I Mason	41	16,500	2,309	120,000	100,000	15,035

#### Notes:

<sup>a</sup> Mr Lawson left the Scheme on 20 July 2001 on his appointment as Chairman Designate. Mr Lawson became Chairman in November 2001. This table reflects the benefits retained in the approved Scheme only, and includes credit for transfers received and service to 20 July 2001. Mr Lawson’s unapproved entitlement was settled in the previous year. <sup>b</sup> Accrued Pension Benefits shown are the amounts which would be paid annually on retirement based on service to the end of the year. <sup>c</sup> Transfer values have been calculated in accordance with the Guidance Note published by the Institute and Faculty of Actuaries (GN11). <sup>d</sup> The increase in transfer value less Directors’ contributions includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stock market movements. It is calculated after deducting the Directors’ contributions. <sup>e</sup> Additional contributions of £338,415 were paid into a funded unapproved arrangement for Mr Hewitt (2002: £66,903).

#### Other benefits

All Executive Directors are provided with a Company mobile phone, a Company car and medical insurance. The taxable value of these benefits is included in the Directors’ emoluments table.

#### Service contracts (not subject to audit)

All current Executive Directors have service contracts that are on a 12 month rolling basis. These contracts provide for 12 months’ notice by the Company and by the Executives.

Termination payments are limited to the Directors’ normal compensation, including basic salary, annual incentives and benefits, for the unexpired portion of the notice period. However, the Committee will aim to minimise the level of payments to that Director having regard to all circumstances, including the Company’s contractual obligations to the Director, the reason for the departure, and the Company’s policy to apply mitigation in the case of severance.

The Company entered into the current contractual agreements with Mr Butler and Mr Mason on 1 March 2001 and with Mr Hewitt on 14 March 2001. These agreements replaced all prior arrangements.

On 20 July 2001 Mr Lawson was appointed as Chairman Designate, and became Chairman in November 2001. Mr Lawson entered into a service agreement with the Company on 20 July 2001 replacing all prior arrangements. The contract provides for 12 months’ notice of termination to be given by the Company or by Mr Lawson at any time. The term of the contract will be reviewed by the Company on or before 31 December 2003 and such review may, at the Company’s discretion, result in the term being extended to the date of the Company’s Annual General Meeting in 2006 whereupon it shall terminate without further notice unless renewed by the Company.

**External appointments** (not subject to audit)

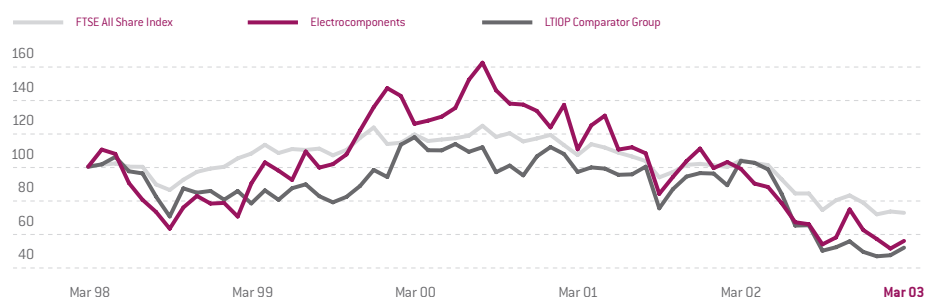
Executive Directors are encouraged to take up one Non-Executive position on the boards of other companies on the condition that any fees are remitted to the Company.

**Performance review** (not subject to audit)

The following graph shows the five year Total Shareholder Return ("TSR") performance of the Company relative to both the Comparator Group used for the 2002 LTIOIP grant and the FTSE All Share Index. These indices were chosen because they provide a comparison of the Company's performance against the Comparator Group chosen for the awards made under LTIOIP, the Company's main share incentive scheme, and a broad equity market index.

Brambles Industries plc and Takkt AG who are part of the Comparator Group used for the 2002 LTIOIP Grant became listed companies on 31 August 2001 and 30 September 1999 respectively. They have only been included in the Comparator Group from these dates.

The TSR of Electrocomponents' shares was -11.0% p.a. over the period compared with -12.4% p.a. for the LTIOIP Comparator Group and -6.2% p.a. for the FTSE All Share Index.

**Value of £100 invested in Electrocomponents on 31 March 1998 vs. 2002 LTIOIP Comparator Group and the FTSE All Share Index****Directors' Remuneration for the year ended 31 March 2003****Salary, Annual Bonus and Other Benefits (audited)**

	SALARY 2003 £	SALARY 2002 £	IN LIEU OF PENSION 2003 £	IN LIEU OF PENSION 2002 £	BENEFITS 2003 £	BENEFITS 2002 £	BONUS 2003 £	BONUS 2002 £	TOTAL 2003 <sup>e</sup> £	TOTAL 2002 <sup>e</sup> £
<b>Emoluments of the Chairman</b>										
R A Lawson <sup>a</sup>	160,000	245,909	0	0	28,363	22,252	0	0	188,363	268,161
– pension <sup>a</sup>			0	0		325,000			0	325,000
<b>Emoluments of Executive Directors</b>										
R B Butler <sup>b</sup>	278,333	256,667	0	0	15,096	17,628	40,000	0	333,429	274,295
J L Hewitt <sup>b, c</sup>	352,917	327,500	58,937	44,598	23,993	15,629	50,000	0	485,847	387,727
I Mason <sup>b, c</sup>	422,083	361,856	52,304	28,511	27,012	23,374	60,000	0	561,399	413,741
– one-off salary supplement <sup>c</sup>			157,400	0					157,400	0
<b>Totals</b>	<b>1,213,333</b>	<b>1,191,932</b>	<b>268,641</b>	<b>73,109</b>	<b>94,464</b>	<b>403,883</b>	<b>150,000</b>	<b>0</b>	<b>1,726,438</b>	<b>1,668,924</b>
<b>Fees of Non-Executive Directors</b>										
L Atkinson <sup>d</sup>									35,000	34,417
T G Barker									32,000	31,667
K Hamill									32,000	31,667
F D Lennertz									40,000	39,667
N J Temple									32,000	31,667
D S Winterbottom <sup>d</sup>									35,000	34,667
<b>Totals</b>									<b>1,932,438</b>	<b>1,872,676</b>

- Notes:**
- <sup>a</sup> The salary figure for 2002 comprises £135,000 paid to Mr Lawson for the period 1 April 2001 to 20 July 2001 in his capacity as Group Chief Executive and £110,909 paid to him for the period from 21 July 2001 to 31 March 2002 in his capacity as, initially, Chairman Designate and thereafter as Chairman. In accordance with the terms of Mr Lawson's unfunded pension arrangement (and similar to the provisions of the Electrocomponents Group Pension Scheme) no actuarial reduction is applied to pension benefits following retirement after age 55. The benefit of this arrangement to Mr Lawson following his retirement as Group Chief Executive amounted to £325,000.
- <sup>b</sup> No bonus was paid for the financial year to 31 March 2002. <sup>c</sup> Provision of pension benefits under the Group's approved pension arrangements is restricted for employees joining the pension scheme after 1 June 1989. Mr Hewitt and Mr Mason elected to receive salary supplements of £58,937 and £52,304 respectively in lieu of the balance of their pension entitlements. Mr Mason received a one-off salary supplement of £157,400 in lieu of pension during the year. In addition, Mr Hewitt also elected to receive payments to a funded unapproved retirement benefit scheme of £338,415 (which includes a one-off contribution of £250,000) made during the year and shown on page 32.
- <sup>d</sup> Dr Atkinson, as Chairman of the Remuneration Committee and Mr Winterbottom as Chairman of the Audit Committee, each receive an additional fee of £3,000 per annum.
- <sup>e</sup> No payments were made during the years ending 31 March 2002 or 31 March 2003 in connection with (i) compensations for loss of office or (ii) reimbursable taxable expenses.

## Remuneration report (continued)

## Directors' Interests in Incentive Plans and Share Options (audited)

## Long Term Incentive Plan (LTIP) (Note a)

	DATE OF GRANT	VESTING DATE	MARKET PRICE ON GRANT	SHARES AT 31 MARCH 2002	GRANTED IN FY03	SHARES VESTED ON 4 JULY 2002	MARKET PRICE AT DATE OF VESTING	LAPSED	SHARES AT 31 MARCH 2003
Mr Butler <sup>b</sup>	30-Jun-99	30-Jun-02	491.0p	35,641	0	20,208	347.75p	15,433	0
	30-Jun-00	30-Jun-03	648.6p	30,835	0	0	0	0	30,835
	30-Jun-01	30-Jun-04	544.3p	47,767	0	0	0	0	47,767
<b>Total</b>				114,243	0	20,208		15,433	78,602
Mr Hewitt <sup>b</sup>	30-Jun-99	30-Jun-02	491.0p	50,916	0	28,869	347.75p	22,047	0
	30-Jun-00	30-Jun-03	648.6p	43,169	0	0	0	0	43,169
	30-Jun-01	30-Jun-04	544.3p	60,628	0	0	0	0	60,628
<b>Total</b>				154,713	0	28,869		22,047	103,797
Mr Lawson <sup>b</sup>	30-Jun-99	30-Jun-02	491.0p	75,356	0	42,727	347.75p	32,629	0
	30-Jun-00	30-Jun-03	648.6p	67,838	0	0	0	0	67,838
	30-Jun-01	30-Jun-04	544.3p	80,837	0	0	0	0	80,837
<b>Total</b>				224,031	0	42,727		32,629	148,675
Mr Mason <sup>b</sup>	30-Jun-99	30-Jun-02	491.0p	30,549	0	17,321	347.75p	13,228	0
	30-Jun-00	30-Jun-03	648.6p	29,293	0	0	0	0	29,293
	30-Jun-01	30-Jun-04	544.3p	58,791	0	0	0	0	58,791
<b>Total</b>				118,633	0	17,321		13,228	88,084

Notes: <sup>a</sup> Awards under the LTIP are subject to performance conditions set out on page 31. <sup>b</sup> Shares vesting as at 4 July 2002 are subject to the condition that they may not, in normal circumstances, be sold before 30 June 2005.

## Incentive Plans and Share Options (audited)

	SCHEME	DATE OF GRANT	VESTING DATE	EXPIRATION DATE	EXERCISE PRICE	SHARES UNDER OPTION			SHARES UNDER OPTION 31 MARCH 2003	
						31 MARCH 2002	GRANTED IN FY03	EXERCISED		LAPSED
Mr Butler	<sup>a</sup> 1988 Executive	28-Jul-95	28-Jul-98	27-Jul-05	306.1p	24,750	0	0	0	24,750
		28-Jul-95	28-Jul-00	27-Jul-05	306.1p	14,850	0	0	0	14,850
		28-Jul-95	28-Jul-03	27-Jul-05	306.1p	9,900	0	0	0	9,900
	Savings Related	15-Jan-02	01-Mar-05	30-Sep-05	423.5p	2,245	0	0	0	2,245
	<sup>a</sup> LTIP	22-Aug-02	21-Aug-05	21-Aug-12	312.0p	0	363,868	0	0	363,868
<b>Total</b>						51,745	363,868	0	0	415,613
Mr Hewitt	Savings Related	25-Jul-97	01-Sep-02	28-Feb-03	343.0p	5,029	0	0	5,029	0
	<sup>a</sup> LTIP	22-Aug-02	21-Aug-05	21-Aug-12	312.0p	0	461,333	0	0	461,333
<b>Total</b>						5,029	461,333	0	5,029	461,333
Mr Lawson	<sup>a,b</sup> 1988 Executive	01-Dec-92	30-Nov-99	30-Nov-02	165.6p	22,200	0	22,200	0	0
		28-Jul-95	28-Jul-00	27-Jul-05	306.1p	54,080	0	0	0	54,080
		28-Jul-95	28-Jul-03	27-Jul-05	306.1p	13,520	0	0	0	13,520
	Savings Related	25-Jul-97	01-Sep-02	28-Feb-03	343.0p	5,029	0	0	5,029	0
<b>Total</b>					94,829	0	22,200	5,029	67,600	
Mr Mason	<sup>a</sup> 1988 Executive	28-Jul-95	28-Jul-00	27-Jul-05	306.1p	30,300	0	0	0	30,300
		28-Jul-95	28-Jul-03	27-Jul-05	306.1p	20,200	0	0	0	20,200
		15-Jan-02	01-Mar-05	30-Sep-05	423.5p	3,912	0	0	0	3,912
	Savings Related	22-Aug-02	21-Aug-05	21-Aug-12	312.0p	0	552,300	0	0	552,300
<b>Total</b>					54,412	552,300	0	0	606,712	

Notes: <sup>a</sup> Awards made under the 1988 Executive Share Option Scheme and Long Term Incentive Option Plan are subject to performance conditions set out on pages 30 and 31. <sup>b</sup> The market price at the time Mr Lawson exercised his options on 12 August 2002 was 305p. The notional gain on exercise was £30,947. The closing mid-market price of the shares on 31 March 2003 was 257p. During the year, the price of shares varied between 225p and 492p. No other awards have been made during the year.

By Order of the Board

**Dr Leslie Atkinson** Chairman of the Remuneration Committee, 29 May 2003