

Group Significant Accounting Policies

Basis of consolidation

Electrocomponents plc (the 'Company') is a company domiciled in England. The Group Accounts for the year ended 31 March 2006 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in a jointly controlled entity. Subsidiaries are entities controlled by the Company. All subsidiary accounts are made up to 31 March and are included in the Group Accounts. Further to the IAS Regulation (EC 1606/2002) the Group Accounts have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU ('adopted IFRS'). The Company Accounts continue to be prepared in accordance with UK Generally Accepted Accounting Practices ('UK GAAP') and details of the Company Accounts, notes to the accounts and significant accounting policies are set out on pages 51 to 58.

The financial statements were authorised for issue by the Directors on 1 June 2006.

Basis of preparation

The financial statements are presented in £ Sterling and rounded to £0.1m. They are prepared on the historical cost basis except certain financial instruments detailed below.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable, under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Statement of compliance

The Group Accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the EU. These are the Group's first Group Accounts under IFRS and IFRS 1 has been applied as detailed below.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 32.

Transactions eliminated on consolidation

Intra-group balances and unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing Group Accounts. Unrealised gains arising from transactions with the jointly controlled entity are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains.

First time adoption of IFRS (IFRS 1)

This Standard has been issued to assist the first time adoption of IFRS. The Standard allows alternative treatments for certain areas of the financial statements during the initial transition period. The treatments have been detailed in the relevant sections. The most significant changes for the Group relate to share based payments (IFRS 2), pension costs (IAS 19) and financial instruments (IAS 32 and IAS 39).

Goodwill and other intangibles

Goodwill arising on all acquisitions prior to 31 March 1998 has been written off against reserves. Goodwill arising on acquisitions after 1 April 1998 has been capitalised and, under UK GAAP, was amortised on a straight-line basis over its estimated useful life, with a maximum of 20 years.

The Group has made the elective exemption under IFRS 1 that allows goodwill in respect of acquisitions made prior to 1 April 2004 to remain as stated under UK GAAP. The balance of goodwill as at 1 April 2004 is deemed to be the cost going forward.

IFRS 3 requires that, when a subsidiary entity is acquired and consolidated into the Group Accounts, intangible assets (such as customer lists or trademarks) are valued and then recognised separately on the balance sheet. These are then amortised over their useful economic lives. Goodwill remains the difference between the fair value of the purchase price and the fair value of the tangible and intangible assets but is likely to be smaller under IFRS.

Goodwill is not amortised under IFRS. Instead the carrying value is reviewed annually for impairment and only written down if impaired.

Other intangible assets are stated at cost less accumulated amortisation. The cost of acquired intangible assets are their purchase cost together with any incidental costs of acquisition. Amortisation is calculated to write off the cost of the asset on a straight-line basis at the following annual rates:

Trademarks	5%
Computer software costs	12.5-50%

Amortisation is disclosed in distribution and marketing expenses in the income statement. The residual value, if not insignificant, is reassessed annually. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Investments in jointly controlled entities

The Group Accounts include the Group's share of the total recognised gains and losses in one jointly controlled entity on an equity accounted basis.

Property, plant and equipment

Tangible assets are stated at cost less accumulated depreciation. The cost of self constructed assets includes the cost of materials, direct labour and certain direct overheads.

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Each finance leased asset is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease less accumulated depreciation.

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

Freehold buildings	2%
Motor vehicles	25%
Mainframe computer equipment	20%
Network computer equipment	33%
Portable computers	50%
Other office equipment	20%

Depreciation is disclosed in distribution and marketing expenses in the Income Statement. The residual value, if not insignificant, is reassessed annually.

Impairment

The carrying amounts of the Group's goodwill are reviewed annually to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. The goodwill was tested for impairment at 1 April 2004, the date of transition to IFRS, in accordance with IFRS 1.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement. The recoverable amount is calculated as the present value of estimated future cash flows using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Inventories

Inventories are valued at the lower of cost and net realisable value. This cost is calculated on a weighted average basis. Work in progress and goods for resale include attributable overheads.

Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

Net debt

Net debt comprises cash and cash equivalents less borrowings. Cash and cash equivalents comprises cash in hand and held with qualifying financial institutions in current accounts or overnight deposits net of overdrafts with qualifying financial institutions. Liquid resources include government securities, investment in money market funds and term deposits with qualifying financial institutions and are classed as investments under current assets. Borrowings represent term loans from qualifying financial institutions together with capital instruments classified as liabilities.

Revenue

Revenue from the sale of goods is recognised in the Income Statement when the significant risks and rewards of ownership have been transferred. Revenue represents the sale of goods and services and is stated net of sales taxes. Freight recharged to customers is included within revenue.

Operating expense classification

Cost of sales comprises the cost of goods delivered to customers.

Distribution and marketing expenses include all operating company expenses, including freight costs and movements in inventory provisions, together with the Supply Chain, Product Management, Media Publishing, Facilities, Information Systems and e-Commerce process expenses.

Administration expenses comprise Finance, Legal and Human Resources process expenses, together with the expenses of the Group Board.

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the Income Statement.

Interest income is recognised in the Income Statement as it accrues, using the effective interest method. The interest expenses component of finance lease payments is recognised in the Income Statement using the effective interest rate method.

Catalogue costs

Prior to the issue of a catalogue, all related costs incurred are accrued and carried as a prepayment. On the issue of a catalogue, these costs are written off as they are distributed to customers. Major investments in new catalogue production systems are written off over the period during which the benefits of those investments are anticipated, such period not to exceed three years.

Group Significant Accounting Policies continued

Operating leases

Operating lease rentals are charged to the Income Statement on a straight-line basis over the course of the lease period. The benefits of rent free periods and similar incentives are credited to the Income Statement on a straight-line basis over the full lease term.

Government grants

Government grants related to expenditure on property, plant and equipment are credited to the Income Statement at the same rate as the depreciation on the asset to which the grants relate. The unamortised balance of capital grants is included within trade and other payables.

Employee benefits

Pension costs

In the United Kingdom the Group operates a pension scheme providing benefits based on final pensionable pay for eligible employees who joined on or before 1 April 2004. The scheme is administered by a corporate trustee and the funds are independent of the Group's finances. In addition there are defined benefit pension schemes in Germany and Ireland.

For UK employees who joined after 1 April 2004 the Group provides a defined contribution pension scheme. There are also defined contribution schemes in Australia and North America and government schemes in France, Italy, Denmark and North Asia. Obligations for contributions to defined contribution schemes are recognised as an expense in the Income Statement as incurred.

Contributions to the defined benefit schemes charged to the Income Statement are comprised: current service cost, past service cost, expected return on scheme assets and the interest cost on the expected amount of unwinding of the discount on plan liabilities shown within Distribution and Marketing expenses. The Group has elected to adopt the amendment to IAS 19 [revised], which allows actuarial gains and losses to be recorded in the Statement of Recognised Income and Expense immediately. The Group has adopted the exemption in IFRS 1 allowing all actuarial gains and losses arising before 1 April 2004 to be shown in the opening Balance Sheet at 1 April 2004.

Share based payment transactions

The Group operates several share based payment schemes, the largest of which are the Savings Related Share Option Scheme (SAYE), the Long Term Incentive Option Plan (LTIOP) and the Executive Incentive Plan (EIP).

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity and spread over the period during which employees become unconditionally entitled to the options. The fair values are calculated using an appropriate option pricing model. The Income Statement charge is then adjusted to reflect expected and actual levels of vesting based on non market performance related criteria. The Group's SAYE scheme has been valued using a Black-Scholes model and the Income Statement charge has been adjusted for forfeitures caused by employees failing to maintain either their employment or the required savings. The Group's LTIOP scheme includes performance criteria based on the Group's total shareholder return performance relative to a group of 13 comparable companies. The fair value of the LTIOP schemes has been calculated using a Monte Carlo model and the Income Statement charge has been adjusted for options forfeited by employees leaving the Group. The EIP includes performance criteria based on the Group's profit in the year to March 2009 and has been valued using a Black-Scholes model.

The Group Income Statement includes the administration expenses of the share based payment schemes and the Group Balance Sheet includes the assets and liabilities of the schemes. Shares in the Company, held by the trust established to administer the schemes, are shown within reserves.

The Group has chosen to adopt the exemption whereby IFRS 2, Share-Based Payment, is applied only to awards made after 7 November 2002.

Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is calculated using tax rates substantively enacted at the balance sheet date.

Foreign currency

Financial statements of foreign operations

Overseas companies' profits, losses and cash flows are translated at average exchange rates for the year being a good approximation of the actual rates, and assets and liabilities at rates ruling at the balance sheet date. This leads to exchange gains and losses being generated on consolidation. IFRS requires translation differences on the revaluation of the assets and liabilities of overseas subsidiaries to be taken directly to equity. On the disposal of any overseas entity any exchange differences previously taken to equity will have to be transferred to the Income Statement and taken to the Group profit/loss on disposal of that entity.

The elective exemption in IFRS 1 means that any translation differences prior to the date of transition [1 April 2004] do not need to be analysed retrospectively and so the deemed cumulative translation differences at this date can set to nil. Thus, any cumulative translation differences arising prior to the date of transition are excluded from any future profit/loss on disposal of any entities. The Group adopted this exemption.

Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations and of related hedges are taken to translation reserve. They are released into the Income Statement upon disposal.

Foreign currency transactions

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract if the hedge is effective. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the Income Statement.

Financial instruments

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational and financing activities. It principally employs forward foreign exchange contracts to hedge against changes in exchange rates over the catalogue periods of the majority of its operating companies. In addition there is also a small number of interest rate swaps which swap certain fixed-rate loans into floating-rate.

In accordance with its treasury policies, the Group does not hold or issue derivative financial instruments for trading purposes.

All of the Group's derivatives have no initial cost. In subsequent periods they are stated in the Balance Sheet at fair value. Changes in the fair value of derivative financial instruments that do not qualify for cash flow or net investment hedge accounting are recognised in the Income Statement as they arise. Accounting for derivatives in highly effective designated hedging relationships is dealt with below.

The fair value of the interest rate swaps is the market value of the swap at the balance sheet date, taking into account current interest rates. The fair value of the forward foreign exchange contracts is the difference between their discounted contractual forward price and their current spot price.

Comparative period

The Group has taken advantage of the exemption under IAS 39 from restating its comparative period figures. The comparative period therefore does not include the fair value of hedges within the balance sheet amounts.

Cash flow hedging

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the highly effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or liability the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or liability, the associated gains or losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss [i.e. when interest income or expense is recognised]. For cash flow hedges other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the Income Statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the Income Statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the Income Statement.

Hedge of net investment in foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the Income Statement.