

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 2005.

Principal activity

The principal activity of the Group is the distribution of electronic, electrical and industrial, and commercial supplies and services, through its 26 operating companies and its distributors. Significant events during the year are detailed in the Chairman's Statement, the Chief Executive's Review, and the Operating and Financial Review shown on pages 2 to 19.

Results and dividends

Results for the year are set out in the profit and loss account on page 36. An analysis of turnover, profit and net assets by activity is shown in note 2 on pages 41 and 42. The Directors recommend a final dividend of 12.6p per ordinary share, to be paid, if approved, on 22 July 2005 which, together with the interim dividend of 5.8p per share paid in January, amounts to 18.4p for the year (2004: 18.2p).

Corporate Governance

In respect of the year ended 31 March 2005, the Company has been subject to the provisions of the new Combined Code on Corporate Governance published in July 2003 and appended to the Listing Rules of the UK Listing Authority (the "Combined Code"). Section 1 of the Combined Code establishes 14 main principles and 21 supporting principles of good governance in four areas: Directors; Remuneration of Directors; Accountability and Audit; and Relations with Shareholders. The following three sections explain how these principles were applied. A detailed report on Directors' Remuneration can be found on pages 28 to 33.

Directors and Directors' Independence

The Board comprises the Chairman, who is part-time, three Executive Directors and six independent Non-Executive Directors. The Board is collectively responsible for the performance of the Company. The Board has carefully considered the guidance criteria on independence of Non-Executive Directors under the Combined Code. In the opinion of the Board, all the Non-Executive Directors (including Dr Lennertz who has served on the Board for more than 9 years) bring independence of judgement and character to the Board and to the committees on which they sit, and are independent of management and free from any business or other relationships which could interfere with the exercise of their judgement. Dr Lennertz, who is financially independent of the Company, has the broad experience, credibility and commitment required to be an effective independent director and makes an important contribution to strategic issues, which is a considerable benefit to the Board.

Biographical details of the Directors at the date of this report are set out on pages 20 and 21, together with details of their membership of Board Committees. Brief details of the Chairman, the Chief Executive and the Senior Independent Director are set out on page 24.

Directors' interests in the shares of the Company are shown on pages 24, 32 and 33.

The Board has a formal schedule of matters reserved for its approval. It is responsible for overall Group strategy and the approval and review of major investment proposals. The Board discusses and agrees strategic plans, reviews forecasts and evaluates Group and subsidiary performance. Other day to day operational decisions are delegated by the Board to the Executive Directors' Committee.

Directors are encouraged to update their skills, knowledge and familiarity with the Group by attending external seminars and briefings, through participation at meetings and through visits to operating units, both in the UK and overseas, as well as by receiving presentations from senior management. Directors are given access to independent professional advice at the Group's expense, if they deem it necessary in order for them to carry out their responsibilities. This is in addition to the access that every Director has to the Company Secretary. The Board has continued to secure appropriate insurance cover for its Directors.

Retirement by rotation and new appointment Mr Lawson, Mr Hamill and Dr Lennertz 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 Lawson has a contract terminating at the date of the Company's Annual General Meeting in 2006, unless renewed by the Company. The contract provides for 12 months' notice of termination. Neither Mr Hamill nor Dr Lennertz has a service contract.

In line with best practice under the Combined Code, Directors who have held office for more than 9 years are required to submit themselves for annual re-election. Accordingly, as Dr Lennertz has served as a Non-Executive Director for more than 9 years, he is subject to annual re-election.

Following formal performance evaluation, the Chairman confirms that the performance of Dr Lennertz and Mr Hamill as Non-Executive Directors continues to be effective and that they demonstrate commitment to the role.

With a view to a progressive refreshing of the Board Mr Abbott was appointed as a Non-Executive Director in November 2004. Mr Abbott therefore stands for formal election at the forthcoming Annual General Meeting.

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. These terms of reference are available for inspection on the Company's website. Membership of the various Committees, including the Chairman of each Committee, is shown on pages 20 to 21. The Company provides the Committees with sufficient resources to undertake their duties, including access to the Company Secretary.

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 Board has delegated the following responsibilities to the Executive Directors' Committee: the development and recommendation of strategic plans for consideration by the Board; monitoring of the operating and financial results against plans and forecasts; and the development of risk management and control procedures.

THE AUDIT COMMITTEE consists of all the Non-Executive Directors, with the exception of Dr Atkinson and Dr Lennertz. It meets at least 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 operational audit team 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 audit team. The Committee is also responsible for reviewing the arrangements whereby staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. Further details of the role of the Committee are set out on pages 25 and 26.

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

THE REMUNERATION COMMITTEE consists of all the Non-Executive Directors with the exception of Mr Barker. It meets as required and is responsible for all aspects of the remuneration of Executive Directors and senior managers. Details of the remuneration policy and of the remuneration of each Director are set out on pages 28 to 33 of 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. The Committee periodically assesses what new skills, knowledge and experience are required on the Board and if appropriate, recommends a candidate profile which is then used to brief Recruitment Consultants appointed by the Committee to undertake the selection process. Initial meetings are held with prospective candidates and a shortlist of individuals are selected to meet with the Chairman, other Nomination Committee members and the Executive Directors. The Nomination Committee then meets and decides which candidate, if any, will be recommended to join the Board. This process was used for the appointment of Mr Abbott as a Non-Executive Director in November 2004.

Board Evaluation During the year the Chairman has held meetings with the Non-Executive Directors, without the Executives present. In addition, the Chairman issued a broad questionnaire to Board members for the purpose of assessing overall Board performance.

The responses from this questionnaire were collated independently by the Company Secretary to form the basis for one to one meetings between the Chairman and each Director to evaluate individual, Board and Committee performance. The Chairman subsequently prepared a report for Board consideration from which a list of actions was agreed.

The list of actions is maintained and monitored by the Company Secretary.

During the year, the Non-Executive Directors, led by Mr Temple in his capacity as the Senior Independent Director, met to review the performance of the Chairman, taking into account the views of the Executive Directors.

Board Attendance

Board and Committee Meetings The following table sets out the number of meetings of the Board and its Committees during the year and individual attendance by Board members at these meetings:

	Group Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings during the year	12	6	6	3
Chairman – R A Lawson	12	–	–	3
Executive Directors				
R B Butler	12	–	–	–
J L Hewitt	12	–	–	–
I Mason	12	–	–	–
Non-Executive Directors				
K Abbott ¹	5	3	2	1
L Atkinson ²	12	3	6	3
T G Barker ³	12	6	4	3
K Hamill	11	4	5	3
F D Lennertz	12	–	6	3
N J Temple	12	6	6	3
D S Winterbottom ⁴	5	2	4	–

Notes: [1] K Abbott was appointed to the Board on 3 November 2004. [2] L Atkinson ceased to be a member of the Audit Committee on 3 November 2004. [3] T G Barker ceased to be a member of the Remuneration Committee on 3 November 2004. [4] D S Winterbottom retired from the Board on 16 July 2004.

Chairman, Chief Executive and Senior Independent Director

The roles of Chairman and Chief Executive are held by different individuals. The division of responsibilities between the Chairman and Chief Executive has been clearly established; their responsibilities are set out in writing and have been agreed by the Board.

The **Chairman** is responsible for leadership of the Board and for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman has no involvement in the day to day business of the Company. The Chairman facilitates the effective contribution of the Non-Executive Directors, and ensures Directors receive accurate, timely and clear information. He is also responsible for effective communication between the Board and shareholders.

The **Chief Executive** has direct charge of the Company on a day to day basis and is accountable to the Board for the financial and operational performance of the Group; and the determination of the strategy and the achievement of its objectives.

Mr Temple succeeded Mr Winterbottom as the **Senior Independent Director** when Mr Winterbottom retired from the Board in July 2004. Mr Temple is responsible for chairing the meeting of Non-Executive Directors for the purpose of evaluating the Chairman's performance and to provide a communication channel for shareholders if required.

Directors' Interest 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 2005	31 March 2004
K Abbott ¹	–	–
L Atkinson	2,260	2,260
T G Barker	11,000	11,000
R B Butler	38,349	38,349
K Hamill	5,183	5,183
J L Hewitt	75,382	75,382
R A Lawson	403,374	403,374
F D Lennertz	8,034	8,034
I Mason	37,349	37,349
N J Temple	10,040	7,040
D S Winterbottom ²	3,108	3,108

Notes: (1) or in the case of Mr Abbott, at the date of his appointment. (2) or in the case of Mr Winterbottom, at the date of his resignation. As at 31 March 2005 the Electrocomponents Qualifying Employee Share Ownership Trust (the "Quest") and the Electrocomponents Employee Trust (the "EET") (together the "Trusts") held 40,358 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.

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 Chief Executive, Finance Director and Chairman meet with major shareholders to discuss performance, strategy and governance, and the Non-Executive Directors are available for discussions with shareholders if required. The Finance Director reports to the Board on meetings with shareholders.

Shareholders have been given the opportunity to meet with the Chairman and other Board Directors at last year's Annual General Meeting and the "Electrocomponents at Home" day held in December 2004. The Senior Independent Director is available to attend meetings with major shareholders at their request.

An annual survey is also conducted by UBS, with a representative group of shareholders to obtain their views on strategy and performance, the results of which are communicated to and discussed by the Board. The Company seeks to ensure that all Directors, including the Chairmen of the relevant Board Committees and Senior Independent Director, are available to answer questions at the Annual General Meeting. The Company also has a website (www.electrocomponents.com) which contains up-to-date information on Group activities.

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.

In accordance with the Turnbull Committee Guidance on internal control there is an ongoing process of risk management and internal control, which includes a formal report to the Board twice each year.

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 review and management of key projects and capital expenditure. The appointment of senior managers is reviewed annually through our succession planning process.

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 34. 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 financial risk. Smaller Group companies are supported by Group, regional and process 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-wide processes. These are compared against previous month forecasts and prior year actuals and variances are reviewed by the Group Executive Management team, 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 (KPMG) in their reporting to shareholders.

The Audit Committee met six times during the year ended 31 March 2005 and senior representation from KPMG was present at three of these meetings to ensure full and open communication.

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 KPMG. 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 significant area where management judgement has been applied.

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 Audit Engagement Director. This took place in July 2004 when the current Director was appointed, replacing the previous Director who had held the post for five years.

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.

With respect to non-audit assignments undertaken by KPMG the Company has developed a policy to ensure that the provision of such services does not impair the external Auditor's independence or objectivity.

The policy is as follows:

- When considering the use of the external auditors to undertake non-audit work, the Finance Director should at all times give consideration to the provisions of the Smith Report with regard to the preservation of independence.
- The external auditors must certify to the Company that they are acting independently.
- In providing a non-audit service, the external auditors should not (as summarised in the Smith Report):
 - audit their own work;
 - make management decisions for the Company;
 - create a mutuality of interest; or
 - find themselves in the role of advocate for the Company.
- Before commissioning such work, the Audit Committee or the Finance Director as appropriate must ensure that the external auditors are satisfied that there is no issue as regards independence.

- The Finance Director has authority to commission the external auditors to undertake non-audit work where there is a specific project with a cost that is not expected to exceed £50,000. This work has to be reported to the Audit Committee at its next meeting. If the cost is expected to exceed £50,000, the agreement of the Audit Committee is required before the work is commissioned. In either case, other potential providers should be adequately considered.
- The Finance Director monitors all work done by the external auditors or other providers of accountancy services anywhere in the Group in excess of £10,000.

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 Combined Code

During the year ended 31 March 2005, the Directors consider that the Company complied with the provisions set out in Section 1 of the Combined Code in force during the year ended on that date, except that the current Senior Independent Director who assumed the role in July 2004 has not as yet attended any meetings with major shareholders. He has not been requested to attend such meetings, although it is envisaged that he will be given the opportunity to attend such meetings in the future. In addition, Kevin Abbott, who joined the Board in November 2004, has not yet had the opportunity to meet with major shareholders. It is anticipated that major shareholders will be able to meet Mr Abbott at the forthcoming Annual General Meeting.

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 2005 represent 44 days (2004: 44 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 and complies with the Core International Labour Organisation Conventions and prohibits the employment of underage or forced labour.

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 2005 the following substantial shareholdings had been notified to the Company:

	Number of shares	Percentage held
Silchester International Investors Limited	53,689,024	12.33%
UBS AG	48,982,782	11.25%
Sprucegrove Investment Management Limited	27,909,398	6.41%
Prudential plc	21,171,556	4.86%
Legal & General Investment Management Limited	14,720,419	3.38%

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 note 29 to the accounts on page 55.

During the year the Electrocomponents Employee Trust (EET) purchased no shares (2004: no shares) as referred to in note 17.

Political and Charitable Contributions

The Group made no political contributions during the year. Charitable contributions within the UK amounted to £29,087 (2004: £26,533) and outside the UK amounted to £9,365 (2004: £10,202).

Annual General Meeting

The Notice of the Annual General Meeting, which will be held at 2:00 p.m. on Friday 15 July 2005 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 43,525,000 ordinary shares (being approximately 10% of the issued share capital as at 20 May 2005), 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 that 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. 21,966,984 options to subscribe for equity shares were outstanding as at 20 May 2005, representing 5.05% 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 5.61% of the issued share capital.

Listed companies are now permitted, subject to certain restrictions, to hold their own shares which they purchase in Treasury for resale or transfer at a later date, rather than being obliged to cancel them. If the Company were to purchase any of its own shares pursuant to the authority referred to above, it would consider holding them as treasury stock provided that the number does not at any time exceed 10% of the Company's issued share capital. This would provide the Company with additional flexibility in the management of its capital base. As at 20 May 2005, the Company held no ordinary shares in Treasury.

ALTERATION OF THE ARTICLES OF ASSOCIATION REGARDING INDEMNITIES FOR DIRECTORS AND OFFICERS: The Company's Articles of Association currently provide that every director, auditor or other officer of the Company shall, in certain circumstances, be indemnified out of the assets of the Company against any liability incurred by him in defending any proceedings, whether civil or criminal in relation to the affairs of the Company. The resolution will, if approved, alter the Articles of Association to enable the Company to make use of the changes introduced by the Companies (Audit, Investigations and Community Enterprise) Act 2004 that relax certain of the prohibitions on companies indemnifying their directors against liability and permit companies to pay directors' defence costs as they are incurred.

By order of the Board

Carmelina Carfora
Company Secretary
25 May 2005