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 2002.

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 27 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 12 to 23.

Results and dividends

Results for the year are set out in the profit and loss account on page 34. An analysis of turnover, profit and net assets by activity is shown in note 2 on pages 39 and 40. The Directors recommend a final dividend of 11.0p per ordinary share, to be paid, if approved, on 24 July 2002 which, together with the interim dividend of 4.90p per share paid in January, amounts to 15.9p for the year (2001: 13.8p).

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 fourteen principles of good governance in four areas: Directors; Remuneration of Directors; Relations with Shareholders; and Accountability and Audit. The following four sections explain how these principles have been applied.

Directors

The Board comprises the Non-Executive Chairman, who is part-time, three Executive Directors and six independent Non-Executive Directors. 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 29 and 30.

In the opinion of the Board, all the Non-Executive Directors, other than Mr Lawson, are independent of management and free from any business or other relationships which could interfere with the exercise of their judgement.

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 Hamill, Mr Lawson 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 one year rolling contract but neither Mr Hamill nor Dr Lennertz has a service contract.

Mr Cotterill retired as Chairman on 7 November 2001.

Mr Lawson, who was appointed Chairman Designate on 20 July 2001 after retiring as Group Chief Executive, succeeded Mr Cotterill as Chairman on 7 November 2001.

Mr Mason was appointed Group Chief Executive on 20 July 2001.

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 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 Group Treasurer, the Group Controller 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 other than the Chairman. 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 26 to 30.

THE NOMINATION COMMITTEE consists of the Chairman, who chairs the Committee, 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.

Remuneration of Directors

The determination of the remuneration, benefits and employment conditions of the Executive Directors has been delegated to the Remuneration Committee. The Board as a whole determines the remuneration of the Chairman and other Non-Executive Directors. The Committee adheres to the principles and provisions of the Combined Code and, in preparing this Report, the Board has followed the provisions of Schedule B of the Combined Code. The Committee utilises the services of a leading firm of compensation and benefit consultants to ensure that its aims are met.

Remuneration policy: The objectives of the remuneration policy 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:

- Basic Salary
- Annual Bonus
- Long Term Incentive
- Other Benefits and Conditions.

The Company strives to ensure that Shareholders' interests are best served by maintaining an appropriate balance between basic pay and the performance-linked components of the remuneration package. The new annual bonus plan and the new Long Term Incentive Share Option Plan, which are referred to below, are designed to maintain that balance in the future.

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.

Annual Bonus

For year ended 31 March 2002

The annual bonus is paid in cash and does not exceed 50% of salary. The Remuneration Committee has discretion to increase the bonus payable to any participant if it considers an increase is merited, but not beyond the 50% ceiling.

The annual bonus plan for the year ended 31 March 2002 was based upon growth in profit and return on net assets achieved by the Group.

New Bonus Plan

A new annual bonus plan has been designed and implemented in respect of the year ending 31 March 2003 with the aim of ensuring that the incentives for senior managers and Executive Directors are aligned. The same target setting principles will be used for all participants in the plan, with both financial and operational measures applied to assess progress towards the Group's long term objectives.

The specific targets and parameters of the plan will be reviewed and set by the Remuneration Committee each year.

Annual bonus payments are not pensionable.

Long Term Incentives

For year ended 31 March 2002

Long Term Incentive Plan (LTIP)

Under the LTIP, Executive Directors have been granted an annual award and deferred right to receive a number of ordinary shares in the Company each year since 1995. It is anticipated that no further awards will be made under the LTIP, subject to shareholders approving the Long Term Incentive Share Option Plan.

Each LTIP award is subject to a performance condition, set when the award was granted, which determines whether and to what extent the participant will receive shares at the end of a period of three years. The Company's performance in terms of total shareholder return (TSR) 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.

For awards granted in June 2001, the performance target was based on a three year comparison of the Company's total shareholder return (share price growth plus reinvested dividends) with that of the companies listed between 76th and 125th by market capitalisation on the London Stock Exchange prior to the date of the award. An award may be 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 will allow 35% of the award to be released with pro-rata vesting between those points. No award will be released if the Company is ranked on or below the median. In addition, no part of the award will be released unless the Company's increase in earnings per share exceeds the rate of inflation over the same period.

The Remuneration Committee has considered the position on the vesting of the 1999 LTIP award and in July 2002 it is anticipated there will be a vesting against the TSR criterion. However, in light of the Remuneration Committee's view on underlying performance relative to earnings per share and trading, certain additional conditions relating to ongoing service will be imposed upon the participants and they will be required to remain with the Group for three years to receive the shares.

1988 Executive Share Option Scheme

Mr Butler, Mr Lawson and Mr Mason hold outstanding options under the Company's 1988 Executive Share Option Scheme but the Committee has determined that in any one year an executive should not receive an award under both that scheme and the LTIP.

New Long Term Incentive

Long Term Incentive Share Option Plan (LTIOP)

The LTIOP, for which shareholders' approval is sought at the Annual General Meeting, is designed to align long term incentives with the interests of shareholders. Options will be granted under this plan to Executive Directors and all managers in the Group. Executive Directors will receive options under this plan in place of the awards currently made under the LTIP.

Report of the Directors continued

The principal features of the LTIOP are as follows:

- grants will be made annually;
- the levels of grant will be expressed as a percentage of basic salary;
- options will be subject to stretching performance conditions based on total shareholder return (share price growth plus reinvested dividends), with no options vesting unless performance is above the median for the selected comparator group.

Full details of the LTIOP are set out in the circular to shareholders dated 18 June 2002.

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.

Other Benefits and Conditions

Pension

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 1/30.

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.

Service Contract

On appointment, Executive Directors normally receive a one year rolling contract.

In the event of the early termination of a Director’s service contract, when determining the compensation for such termination 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.

Other Benefits

Executive Directors are provided with other benefits in line with market practice. Such benefits include the provision of a car, private medical insurance and permanent health insurance.

External Appointments

Executive Directors are encouraged to take up Non-Executive positions on the boards of other companies. Each individual is allowed one such appointment on the condition that any fees are remitted to the Company.

Directors’ Remuneration for the year ended 31 March 2002

Salary, Annual Bonus and Other Benefits

Directors’ remuneration	SALARY 2002 £	SALARY 2001 £	BENEFITS 2002 £	BENEFITS 2001 £	BONUS 2002 £	BONUS 2001 £	TOTAL 2002 £	TOTAL 2001 £
Emoluments of the Chairmen								
R A Lawson[a c]	**245,909**	434,167	**22,252**	15,812	–	47,608	**268,161**	497,587
– pension[a]			**325,000**				**325,000**	
R C G Cotterill[b]	**116,667**	120,000	**20,771**	15,328	–	–	**137,438**	135,328
Emoluments of Executive Directors								
R B Butler[c d]	**256,667**	152,581	**17,628**	9,554	–	23,804	**274,295**	185,939
J L Hewitt[c]	**372,098**	329,077	**15,629**	15,735	–	32,460	**387,727**	377,272
I Mason[c d]	**390,367**	176,704	**23,374**	13,821	–	25,968	**413,741**	216,493
Totals	**1,381,708**	1,212,529	**424,654**	70,250	–	129,840	**1,806,362**	1,412,619
Fees of Non-Executive Directors								
L Atkinson[e]							**34,417**	19,700
T G Barker							**31,667**	19,500
K Hamill							**31,667**	28,000
F D Lennertz							**39,667**	36,000
N J Temple							**31,667**	28,000
D S Winterbottom[e]							**34,667**	31,000
Totals							**2,010,114**	1,574,819

Notes: **a** The salary figure 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 Non-Executive 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. **b** Mr Cotterill retired as Chairman on 7 November 2001. **c** No bonus was paid for the period 1 April 2001 to 31 March 2002. **d** Mr Butler and Mr Mason were appointed to the Board on 21 July 2000. Their salary and benefits for the 2001 accounting period were for the period from 21 July 2000 to 31 March 2001 whilst their bonus was for the year ended 31 March 2001. **e** 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.

Directors' interests in the Long Term Incentive Plan

	DATE OF GRANT	SHARES
R B Butler	30 June 1999	35,641
	30 June 2000	30,835
	30 June 2001	47,767
J L Hewitt	30 June 1999	50,916
	30 June 2000	43,169
	30 June 2001	60,628
R A Lawson	30 June 1999	75,356
	30 June 2000	67,838
	30 June 2001	80,837
I Mason	30 June 1999	30,549
	30 June 2000	29,293
	30 June 2001	58,791

The number of shares shown in the above table of outstanding awards was established using mid-market prices for the relevant dates of grant namely 491.0p (1999 grant), 648.6p (2000 grant) and 544.3p (2001 grant).

Awards granted to Mr Butler, Mr Hewitt, Mr Lawson and Mr Mason on 30 June 1998 vested on 5 July 2001 as follows:

	ORIGINAL AWARD	SHARES ACQUIRED	SHARES SOLD (IN JULY 2001)	SHARES LAPSED
R B Butler	31,806	23,313	9,325	8,493
J L Hewitt	45,144	33,090	13,236	12,054
R A Lawson	71,821	52,644	21,057	19,177
I Mason	24,624	18,049	7,219	6,575

The shares were acquired for nil consideration. The sales of shares on 5 July 2001 were at a price of 525p and the proceeds of the sales were used to meet the income tax liabilities.

Directors' interests in Share Options

	SCHEME	DATE OF GRANT	SHARES	OPTION PRICE
R B Butler	1988 Executive Share Option Scheme	28 July 1995	49,500	306.1p
	Savings Related Share Option Scheme	15 Jan 2002	2,245	423.0p
J L Hewitt	Savings Related Share Option Scheme	25 July 1997	5,029	343.0p
R A Lawson	1988 Executive Share Option Scheme	1 Dec 1992	22,200	165.6p
		28 July 1995	67,600	306.1p
	Savings Related Share Option Scheme	25 July 1997	5,029	343.0p
I Mason	1988 Executive Share Option Scheme	28 July 1995	50,500	306.1p
	Savings Related Share Option Scheme	15 Jan 2002	3,912	423.0p

In respect of Directors no options under the 1988 Executive Share Option Scheme were granted, exercised or lapsed during the period.

On 6 September 2001, Mr Butler exercised options under the Savings Related Share Option Scheme over 1,300 shares at an option price of 450.0p. The closing mid market price of shares on 6 September 2001 was 524.5p.

Due to a technical breach of the Inland Revenue rules, the 2000 and 2001 grants of option under the Savings Related Share Option Scheme became unapproved.

As a consequence Messrs Butler and Mason elected to allow the following share option grants to lapse on 31 December 2001:

- Mr Butler – Options over 732 shares granted on 7 July 2000 at an option price of 529.0p and over 1,146 shares granted on 4 July 2001 at an option price of 507.0p.
- Mr Mason – Options over 3,189 shares granted on 7 July 2000 at an option price of 529.0p.

However, both Messrs Butler and Mason used the proceeds of the savings contract to acquire shares in the Company. Details of these purchases are shown on page 30.

Further details of the period during which Executive Share Options are normally exercisable can be found on page 50 of the accounts.

The closing mid-market price of the shares on 31 March 2002 was 478.0p and the range during the year ended 31 March 2002 was 378.0p to 658.0p.

Pension: Executive Directors are members of the Electrocomponents Group Pension Scheme, which provides defined benefits on retirement. 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. Such an arrangement was established for Mr Lawson on an unfunded basis. The commuted cash value of this arrangement including the augmentation required following Mr Lawson's early retirement, further details of which are set out on page 28, was paid to him on his retirement as Group Chief Executive on 20 July 2001. Mr Lawson is a deferred member of the Electrocomponents Group Pension Scheme and continues to receive life insurance cover. The amount of the life insurance benefit for Mr Lawson is included in the amount shown on page 28. The Committee has decided that, in future, only funded benefits should be provided in these circumstances. Consequently, a funded arrangement has been established for Mr Hewitt.

Report of the Directors continued

Mr Hewitt has also elected to receive 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 28. Mr Butler's pension entitlement is met from the Electrocomponents Group Pension Scheme in full.

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 to date 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. 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.

Directors' pension benefits

Increases in the accrued pension to which Executive Directors have become entitled during the year:

	AGE	YEARS OF PENSIONABLE SERVICE	ADDITIONAL PENSION ACCRUED IN YEAR[b] £PA	ACCRUED PENSION AT 31 MARCH 2002[b] £PA	CONTRIBUTIONS BY DIRECTORS TO 31 MARCH 2002 £
R B Butler	42	14.6	23,040	97,438	15,400
J L Hewitt[c, e]	54	5.3	1,737	8,480	4,768
R A Lawson[a, d]	57	13.8	8,335	201,667	4,345
I Mason	40	7.1	2,264	14,191	4,768

Notes: **a** Pensionable Service for Mr Lawson includes credit for transfers received. Mr Lawson ceased to be an Executive Director on 20 July 2001 and ceased to accrue further pensionable service from that date. The amount included for accrued pensions (£201,667) covers his entitlement under both the Group Pension Scheme and his unfunded arrangement. **b** Pensions are payable from age 60 (or on earlier retirement). The increase in accrued pension is after removing the effects of inflation. **c** Additional contributions of £66,903 were paid into a funded unapproved arrangement for Mr Hewitt (2001: £57,371). **d** Accrued pension for Mr Lawson for the year ended 31 March 2001 was £190,100. **e** Accrued pension for Mr Hewitt for the year ended 31 March 2001 was £6,630.

Service contracts: Mr Lawson joined the Company on a three year rolling contract which was subsequently reduced to a two year rolling contract. In light of past performance, length of service and the Group's policy and practice to apply mitigation in the case of severance, two years' notice was deemed appropriate for Mr Lawson. Mr Lawson retired as Group Chief Executive on 20 July 2001. As Non-Executive Chairman Mr Lawson now has a one year rolling contract. Mr Butler, Mr Hewitt and Mr Mason each have one year rolling contracts.

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 2002	1 APRIL 2001
L Atkinson	**2,260**	2,260
T G Barker	**7,000**	7,000
R B Butler[a]	**16,928**	1,137
R C G Cotterill[b]	**N/A**	22,426
K Hamill	**1,883**	1,883
J L Hewitt[c]	**39,780**	19,926
R A Lawson[d]	**338,447**	306,860
F D Lennertz	**6,530**	6,530
I Mason[e]	**18,815**	7,157
N J Temple	**7,040**	7,040
D S Winterbottom	**3,108**	3,108

Notes: As at 31 March 2002 the Electrocomponents Qualifying Employee Share Ownership Trust (the "Quest") and the Electrocomponents Employee Trust (the "EET") (together the "Trusts") held 91,999 and 417,542 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. **a** On 5 July 2001, Mr Butler received 23,313 shares under the terms of the Long Term Incentive Plan of which 9,325 shares were sold to meet the income tax liability. On 6 September 2001, Mr Butler exercised options under the Savings Related Share Option Scheme to acquire 1,300 shares. On 25 January 2002, Mr Butler bought 503 shares. **b** At 7 November 2001, the date on which Mr Cotterill retired as Chairman, Mr Cotterill had interests in 22,426 shares of the Company. **c** On 5 July 2001, Mr Hewitt received 33,090 shares under the terms of the Long Term Incentive Plan of which 13,236 shares were sold to meet the income tax liability. **d** On 5 July 2001, Mr Lawson received 52,644 shares under the terms of the Long Term Incentive Plan of which 21,057 shares were sold to meet the income tax liability. **e** On 5 July 2001, Mr Mason received 18,049 shares under the terms of the Long Term Incentive Plan of which 7,219 shares were sold to meet the income tax liability. On 25 January 2002, Mr Mason bought 828 shares.

Up to 20 May 2002 there have been no changes in the Directors' interests.

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) 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.

With effect from 1 April 2000, 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 process 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. The on-going process of enhancing and improving these processes ensures that business risks and opportunities are effectively identified, managed and controlled.

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 32. 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 Director 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 Groupwide 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 meets three times a year and senior representation from KPMG is present at these meetings to ensure full communication.

The overall performance of the auditors is reviewed annually by the Audit Committee, taking into account the views of management, and feedback is provided to senior members of the audit team. This feedback 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 businesses 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 every seven years; rotation of other individuals within the audit teams is actively encouraged and has taken place. The current Director has held his role for three 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 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. If any additional accounting support is required then this is considered subject to a competitive proposal.
- Tax consulting: 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 bid.
- General and Systems consulting: All significant consulting projects are put out to competitive bids. Of the consulting 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 pre-determined 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.

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.

Non-compliance with the Combined Code

Until Mr Lawson stepped down as Group Chief Executive on 20 July 2001 he had a two year rolling contract. With that exception during the year ended 31 March 2002, the Company complied with the provisions set out in Section 1 of the Combined Code.

Health and safety

The Group supports the promotion of health and safety best practice as an integral part of our business activities. Good health and safety management safeguards our employees, those who may be affected by our activities and supports the Group in achieving its business objectives.

Report of the Directors continued

The Group's health and safety approach is supported by training programmes at operating companies, by Group Health and Safety Rules and by monitoring and auditing to promote a high level of awareness and commitment.

Environmental policy

The Group's environmental management plan provides a focus for implementing a systematic approach to environmental management.

The primary objectives of the Group's environmental policy are to reduce any detrimental environmental impacts of the Group's activities and to participate in the international commitment to achieving sustainable development. The Group is committed to minimising any adverse effects of its activities on the environment and continuing to improve its performance in these areas.

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.

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 2002 represent 34 days (2001: 40 days) of average purchases.

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 2002 the following substantial shareholdings had been notified to the Company:

	NUMBER OF SHARES	PERCENTAGE HELD
Schroder Investment Management Limited	40,315,973	9.27%
Prudential plc	20,945,008	4.81%
Henderson Global Investors Limited	18,342,355	4.22%
Friends Ivory and Sime plc	15,543,422	3.57%
Legal & General Investment Management Limited	14,847,621	3.41%
Co-operative Insurance Society Limited	13,941,678	3.20%

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 30 and 31 to the accounts on page 50.

During the year Electrocomponents Employee Trust ("EET") purchased 250,000 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 £22,882 (2001: £16,512) and outside the UK amounted to £39,413.

Annual General Meeting

The Annual General Meeting will be held at 12 noon on Friday 19 July 2002 at the International Management Centre, 5000 Oxford Business Park South, Oxford OX4 2BH. The notice of the Annual General Meeting and details of the business to be conducted thereat is being sent to shareholders in a separate circular dated 18 June 2002 enclosed with this Report and Accounts. A brief summary of the matters to be dealt with is set out on page 54.

By order of the Board
Carmelina Carfora, Secretary, 29 May 2002

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.