

Principal accounting policies

Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

All subsidiary accounts are made up to 31 March and are included in the consolidated accounts. The Group accounts comprise the consolidated accounts of the Company and its subsidiaries. A separate profit and loss account is not presented in respect of the Company, as provided by Section 230 of the Companies Act 1985.

Goodwill

Goodwill arising on all acquisitions prior to 31 March 1998 has been written off against reserves. On disposal of a business, the gain or loss on disposal includes that goodwill previously written off on acquisition. Following the introduction of FRS 10 in the year ended 31 March 1999, the Group chose not to restate goodwill that had been eliminated against reserves.

Goodwill arising on acquisitions after 1 April 1998 is capitalised and amortised on a straight-line basis over its estimated useful life, with a maximum of 20 years.

Other intangibles

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 over its estimated useful life, with a maximum of 20 years.

Investments in subsidiary undertakings

Investments in subsidiary undertakings including long term loans are included in the balance sheet of the Company at the lower of cost and the expected recoverable amount. Any impairment is recognised in the profit and loss account.

Investments in associated undertakings

Investments in undertakings, other than subsidiary undertakings, in which the Group has a substantial interest (20% or more) and over which it exerts significant influence are treated as associated undertakings.

Translation of foreign currencies

Overseas companies' profits, losses and cash flows are translated at average exchange rates for the year, and assets and liabilities at rates ruling at the balance sheet date. Exchange differences arising on foreign currency net investments are taken to reserves. 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. 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 profit and loss account.

Financial instruments

Gains and losses on hedging instruments are not recognised in the performance statements until the exchange movement on the item being hedged is recognised.

Turnover

Turnover represents the sale of goods and services and is stated net of sales taxes.

Operating expense classification

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

Distribution and marketing expenses include all operating company expenses, 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.

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 2003. The scheme is administered by a corporate trustee and the funds are independent of the Group's finances. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the working lives with the Group of those employees who are in the scheme. There are no significant prepayments or provisions included within the balance sheet. For employees who joined after 1 April 2003 the Group provides a defined contribution pension scheme. In addition to the UK schemes, benefits are provided elsewhere in the Group through defined contribution, defined benefit and government schemes.

The Group has decided not to adopt FRS 17 Retirement Benefits early. The transitional disclosures required by FRS 17 can be found in note 6.

Principal accounting policies (continued)

Long Term Incentive Plan and Long Term Incentive Share Option Plan

The consolidated profit and loss account includes the income and administration expenses of the Long Term Incentive Plan (LTIP) and the Long Term Incentive Share Option Plan (LTIOIP), and the consolidated and Company balance sheets include the assets and liabilities of the Plans. Shares in the Company, held by the trust established to administer the Plans, are shown as fixed asset investments. Where options over shares are awarded to managers the value of the expected award is amortised on a straight-line basis over the periods of service to which the awards relate.

Government grants

Government grants related to expenditure on tangible fixed assets are credited to the profit and loss account at the same rate as the depreciation on the asset to which the grants relate. The amortised balance of capital grants is included within creditors.

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% |
| Leasehold premises | term of lease, not exceeding 50 years |
| Warehouse systems | 10-20% |
| Motor vehicles | 25% |
| Mainframe computer equipment | 20% |
| Network computer equipment | 33% |
| Portable computers | 50% |
| Computer software costs | 12.5-50% |
| Other office equipment | 20% |

Stocks

Stocks are valued at the lower of cost and net realisable value. Work in progress and goods for resale include attributable overheads.

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 over the life of the catalogue, which mainly varies between six and twelve months. 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 five years.

Net debt

Net debt comprises net cash and liquid resources less borrowings. Net cash 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 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 under FRS 4.

Deferred taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Leases

The Group has no material assets held under finance leases.

Operating lease rentals are charged to the profit and loss account 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 profit and loss account on a straight-line basis over the period up to the date on which the lease rentals are adjusted to the prevailing market rate.

Employee Share Trust

Where shares are issued to the Electrocomponents Qualifying Employee Share Ownership Trust (QUEST) an amount representing the difference between market value and the option price is transferred from the profit and loss account to the share premium account.