

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 2004.

Principal activity

The principal activity of the Group is the distribution of electronic, electrical, 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 letter, the Chief Executive's review, and the Operating and Financial review shown on pages 15 to 21.

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 23 July 2004 which, together with the interim dividend of 5.6p per share paid in January, amounts to 18.2p for the year (2003: 17.0p).

Corporate governance

The Company complied with the Principles of Good Governance and Code of Best Practice appended to the Listing Rules of the UK Listing Authority (the Combined Code) in force in respect of the year ended 31 March 2004. Section 1 of the Combined Code establishes 14 principles of good governance in four areas: Directors; Remuneration of Directors; Relations with Shareholders; and Accountability and Audit. The following three sections explain how these principles were applied. A detailed report on Directors' remuneration can be found on pages 28 to 32.

Directors

The Board comprises the Chairman, who is part-time, three Executive Directors and six independent Non-Executive Directors. All the Non-Executive Directors are independent of management, in the opinion of the Board, and free from any business or other relationships which could interfere with the exercise of their judgement. Biographical details of the Directors at the date of this report are set out on pages 22 and 23 together with details of their membership of Board Committees.

Directors' interests in the shares of the Company are shown on pages 25 and 32.

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 management.

Retirement by rotation Dr Atkinson, Mr Butler and Mr Mason 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 Butler and Mr Mason each have a one year rolling contract but Dr Atkinson does not have a service contract.

Mr Winterbottom will also retire by rotation at the forthcoming Annual General Meeting in accordance with the Company's Articles of Association. Mr Winterbottom has indicated that he will not be seeking re-election.

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, including the Chairman of each Committee, is shown on page 23.

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 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 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 TREASURY COMMITTEE consists of the Group Chief Executive, the Group Finance Director, the Chief Process Officer, 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 monthly.

THE REMUNERATION COMMITTEE consists of all the Non-Executive Directors. 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 28 to 32 in 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 will periodically assess what new skills are required and recommend a candidate profile which the Chairman will use to brief Recruitment Consultants appointed by the Committee to undertake the selection process. The Chairman will have initial meetings with candidates and recommend a shortlist of individuals who then meet with other Nomination Committee members and the Group Chief Executive. The Nomination Committee then meet and decide which candidate, if any, will be invited to join the Board.

Board Evaluation During the year the Chairman has held meetings with the Non-Executive Directors, without the Executive Directors present, to discuss matters relating to overall Board performance. In addition, a questionnaire was issued to Board members for the purpose of evaluating such performance. The responses were collated and reported to the full Board. Subsequently, the Chairman held one to one meetings with all Directors resulting in the drawing up of an agreed list of actions.

Prior to the extension of the Chairman's contract in December 2003, the Non-Executive Directors, led by the Senior Independent Director, reviewed the performance of the Chairman, taking into account the views of the Executive Directors.

Board attendance

Group Board Meetings During the year ended 31 March 2004, there were eleven meetings of the Board. All members of the Board attended all meetings, with the exception of one Director, who missed one meeting.

Audit Committee Meetings During the year ended 31 March 2004, there were four meetings of the Audit Committee and all members were in attendance.

Remuneration Committee Meetings Seven meetings of the Remuneration Committee were held during the year ended 31 March 2004. All members of the Committee attended all meetings, with the exception of one Director, who missed one meeting.

Nomination Committee Meetings During the year ended 31 March 2004, two meetings of the Nomination Committee were held and all members were in attendance.

Chairman and Group Chief Executive

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

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 2004	31 MARCH 2003
L Atkinson	2,260	2,260
T G Barker	11,000	11,000
R B Butler	38,349	37,136
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	6,530
I Mason	37,349	36,136
N J Temple	7,040	7,040
D S Winterbottom	3,108	3,108

Notes: As at 31 March 2004 the Electrocomponents Qualifying Employee Share Ownership Trust (the 'Quest') and the Electrocomponents Employee Trust (the 'EET') (together the 'Trusts') held 40,826 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.

Directors' interests in Incentive Plans and Share Options are disclosed on page 32.

Up to 20 May 2004 there have been no changes in the Directors' interests or rights to subscribe for shares.

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. An annual survey is also conducted with a selective group of major shareholders to obtain their views on strategy and performance. The Company seeks to ensure that all Directors, including 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 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, corporate social responsibility, the monthly forecasting procedure, the management of key projects and the appointment of senior managers and controls over capital expenditure.

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 27. 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 Groupwide processes. These are compared against previous month forecasts and prior year actuals and variances are reviewed by the Group Executive Management Team, Group 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.

Report of the Directors (continued)

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 four times during the year ended 31 March 2004 and senior representation from KPMG was present at 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 areas 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. Rotation of other individuals within the audit teams is actively encouraged and has taken place. The current Director has held his role for five years following the last rotation, consequently, a new Group Audit Engagement Director will be appointed following the Annual General Meeting in July 2004.

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.

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 by KPMG. If any additional accounting support is required then KPMG is considered for this work subject to a competitive proposal.

TAX: We use KPMG in situations where they are best suited to do the work, but the Group also uses other tax advisors. Significant pieces of tax work are put out to competitive tender.

OTHER: All significant projects are put out to competitive tender. KPMG has had only a small part of such work that has taken place in the Group in recent years.

The Group Finance Director oversees KPMG work anywhere in the Group in excess of a pre-determined low level and authorises such work. 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.

Compliance with the Combined Code

During the year ended 31 March 2004, the Company complied with the provisions set out in Section 1 of the Combined Code in force during the year ended on that date.

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 2004 represent 44 days (2003: 39 days) of average purchases.

Employees

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 use 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 2004, the following substantial shareholdings had been notified to the Company:

	NUMBER OF SHARES	PERCENTAGE HELD
Sprucegrove Investment Management Ltd	23,994,428	5.51%
Prudential plc	22,340,614	5.13%
The Capital Group of Companies, Inc.	20,665,980	4.75%
Legal & General Investment Management Limited	13,927,541	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 note 29 to the accounts on pages 54 and 55.

During the year the Electrocomponents Employee Trust ('EET') purchased no shares, as referred to in note 16.

Political and charitable contributions

The Group made no political contributions during the year. Charitable contributions within the UK amounted to £26,533 (2003: £30,447) and outside the UK amounted to £10,202 (2003: £14,768).

Annual General Meeting

The Notice of the Annual General Meeting, which will be held at 12 noon on Friday 16 July 2004 at the Company's premises, The International Management Centre, 5000 Oxford Business Park South, Oxford, OX4 2BH, is set out on pages 58 and 59.

In addition to conducting the ordinary business, the following special business will be considered:

INCREASE IN DIRECTORS' FEES: To provide for an increase in the maximum aggregate fees payable to Directors from £450,000 to £600,000.

RENEWAL OF DIRECTORS' AUTHORITY TO ALLOT SHARES: This resolution will permit your Directors until 15 July 2009 to allot up to 45,699,239 ordinary shares (approximately 10.5% of the issued share capital as at 20 May 2004, excluding any shares held by the Company in Treasury). The Directors have no present intention of exercising this authority other than in connection with the exercise of options.

RENEWAL OF DIRECTORS' AUTHORITY TO DISAPPLY PRE-EMPTION RIGHTS: This resolution will authorise your Directors until 15 July 2009 to issue shares for cash or sell shares which are from time to time held by the Company in Treasury without pre-emption rights applying, by way of offer to existing shareholders and pursuant to employee share schemes, up to the maximum amount of the allotment authority above and otherwise up to 21,762,332 ordinary shares (being approximately 5% of the issued share capital as at 20 May 2004). The resolution also specifically authorises the use of Treasury shares to satisfy the exercise of any employee share schemes.

RENEWAL OF DIRECTORS' AUTHORITY FOR THE PURCHASE BY THE COMPANY OF ITS OWN SHARES: This resolution will authorise market purchases of up to 43,524,665 ordinary shares (being approximately 10% of the issued share capital as at 20 May 2004), 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. 19,054,106 options to subscribe for ordinary shares were outstanding as at 20 May 2004, representing 4.38% 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 ordinary shares will represent 4.86% 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 2004, the Company held no ordinary shares in Treasury.

By order of the Board

Carmelina Carfora

Company Secretary

26 May 2004

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 Company and the Group and to prevent and detect fraud and other irregularities.