

GROUP SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Electrocomponents plc (the 'Company') is a company domiciled in England. The Group Accounts for the year ended 31 March 2009 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in a jointly controlled entity. Subsidiaries are entities controlled by the Company. All subsidiary accounts are made up to 31 March and are included in the Group Accounts. Further to the IAS Regulation (EC 1606/2002) the Group Accounts have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU ('adopted IFRS'). The Company Accounts continue to be prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP') and details of the Company Accounts, notes to the accounts and principal accounting policies are set out on pages 71 to 80.

The accounts were authorised for issue by the Directors on 29 May 2009.

Basis of preparation

The accounts are presented in £ Sterling and rounded to £0.1m. They are prepared on a going concern basis (as referred to in the Directors' report on page 22) and on the historical cost basis except certain financial instruments detailed below.

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

Estimates and judgements

The preparation of accounts requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made in the accounts for the year ended 31 March 2009 are:

Pensions: the key assumptions and estimates relate to discount rates, inflation rates and increases to salaries and pensions in payment. These are explained in more detail in note 7.

Goodwill: the Group's goodwill principally relates to the acquisition of Allied Electronics Inc. in July 1999. The key assumptions used to determine the recoverable amount of goodwill relate to future operating performance, cash flows and discount rates. These are set out in note 11.

Statement of compliance

The Group Accounts have been prepared in accordance with International Financial Report Standards ('IFRS') as adopted for use by the EU.

Adjusted measures

Profit measures such as operating profit, profit before tax and earnings per share are also presented as being results before pension changes/reorganisation income (costs) or as headline results. Similarly a cash flow term: free cash flow, representing the Group's cash flow before financing activities is also disclosed.

These measures are used by the Group for internal reporting purposes and employee incentive arrangements. The terms 'pension changes/reorganisation', 'headline' and 'free cash flow' are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies. Likewise, these measures are not a substitute for GAAP measures of profit or cash flow.

Revenue

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

Transactions eliminated on consolidation

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

Goodwill and other intangibles

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

The Group has made the elective exemption under IFRS 1 that allows goodwill in respect of acquisitions made prior to 1 April 2004 to remain as stated under UK GAAP. The balance of goodwill as at 1 April 2004 is deemed to be the cost going forward. Goodwill is not amortised under IFRS. Instead the carrying value is reviewed annually for impairment.

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

Trademarks 5%

Computer software costs 12.5%-50%

Amortisation is disclosed in distribution and marketing expenses in the income statement. The residual value, if significant, is reassessed annually. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Investments in jointly controlled entities

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

Property, plant and equipment

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

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

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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 and leasehold buildings 2%
Plant and machinery 10%-20%
Mainframe computer equipment 20%
Network computer equipment 33%
Portable computers 50%
Other office equipment 20%

Depreciation is disclosed in distribution and marketing expenses in the income statement. The residual value, if significant, is reassessed annually.

Impairment

The carrying amounts of the Group's goodwill are reviewed annually to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated.

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

Inventories

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

Trade and other receivables

Trade and other receivables are initially measured on the basis of their fair value. Subsequently they are carried at amortised cost using the effective interest rate method.

Net debt

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

Operating expense classification

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

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

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

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

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

Borrowing cost

Borrowing costs are recognised in the income statement as incurred.

Catalogue costs

The costs associated with the production and printing of catalogues are expensed to the income statement when incurred. Major investments in new catalogue production systems are capitalised as intangible assets and written off over the period during which the benefits of those investments are anticipated, such period not to exceed three years.

Operating leases

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

Government grants

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

Employee benefits

Pension costs

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

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

The cost of the defined benefit scheme charged to the income statement comprises: current service cost, past service cost, expected return on scheme assets and the interest cost on the expected amount of unwinding of the discount on plan liabilities within administrative expenses and distribution and marketing expenses. The Group has elected to adopt the amendment to IAS 19 (revised), which allows actuarial gains and losses to be recorded in the Statement of Recognised Income and Expense immediately.

Obligations are measured at present value using the projected unit credit method and a discount rate reflecting yields on high quality corporate bonds. Assets are measured at their fair value at the balance sheet date.

Share-based payment transactions

The Group operates several share-based payment schemes, the largest of which are the Savings Related Share Option Scheme (SAYE), A US s423 scheme (US employees only), the Long Term Incentive Option Plan (LTIOOP), the Long Term Incentive Plan (LTIP) and the Executive Incentive Plan (EIP). Details of these are provided in note 6 to the Group accounts.

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity and spread over the period during which employees become unconditionally entitled to the options. The fair values are calculated using an appropriate option pricing model. The income statement charge is then adjusted to reflect expected and actual levels of vesting based on non market performance related criteria.

Administrative expenses and distribution and marketing expenses include the cost of the share-based payment schemes and the Group balance sheet includes the assets and liabilities of the schemes. Shares in the Company, held by the trust established to administer the schemes, are shown within reserves.

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

Tax

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is calculated using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which these temporary differences can be utilised.

Foreign currency

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Net investment in foreign operations

Exchange differences arising from this translation of foreign operations, and of related qualifying hedges are taken directly to equity. They are released into the income statement upon disposal.

The elective exemption in IFRS 1 means that any translation differences prior to the date of transition (1 April 2004) do not need to be analysed retrospectively and so the deemed cumulative translation differences at this date can be set to nil. Thus, any cumulative translation differences arising prior to the date of transition are

excluded from any future profit or loss on disposal of any entities. The Group adopted this exemption.

Foreign currency transactions

Transactions in foreign currencies are recorded using the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

Financial instruments

Derivative financial instruments

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

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

Certain derivative financial instruments are designated as hedges in line with the Group's risk management policies. Hedges are classified as follows:

- Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability.
- Cash flow hedges when they hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a forecast transaction.
- Net investment hedges when they hedge the exposure to changes in the value of the Group's interests in the net assets of foreign operations.

All the Group's derivatives are initially and in subsequent periods recognised in the balance sheet at fair value. Changes in the fair value of derivative financial instruments that do not qualify for cash flow or net investment hedge accounting are recognised in the income statement as they arise.

Cash flow hedge accounting

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised immediately in the income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or liability the associated cumulative gain or loss is removed from equity and included in the initial cost of the non-financial asset or liability. When the forecast transaction subsequently results in the recognition of a financial asset or liability, the associated cumulative gain or loss that was recognised directly in equity is reclassified into the income statement in the same period during which the asset acquired or liability assumed affects the income statement.

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

The fair value of forward foreign exchange contracts is the difference between their discounted contractual forward price and their current forward price.

Fair value hedge accounting

The Group uses derivative financial instruments to hedge exposure to interest rate risks arising from financing activities, holding a small number of interest rate swaps which swap certain fixed rate loans into floating rate.

The fair value of the interest rate swaps is the market value of the swap at the balance sheet date, taking into account current interest rates.

All loans due within more than one year not accounted for under fair value hedge accounting are held at amortised cost, which approximates to fair value as interest repricing takes place on a regular basis.

Hedge of net investment in foreign operations

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

Changes in accounting policies

The following standard and changes to existing standards and interpretations that have been enacted, and have an impact on these accounts are:

- IFRIC 13 'Customer loyalty programmes'. This has no material impact on the Group accounts.

The following standard and changes to existing standards and interpretations that have been endorsed, but the Group has decided not to early adopt are:

- IFRS 8 'Operating Segments' is applicable for years commencing on or after 1 January 2009. The new standard replaces IAS 14 (Segment Reporting) and requires an entity to report segment information on the same basis as that reported to management for decision making purposes. The adoption of this standard will impact on the Group's segmental disclosures.

- IAS 1 (Presentation of Financial Statements – Revised), effective for accounting periods beginning on or after 1 January 2009. The revised standard aims to enhance the usefulness of information presented in the financial statements including the introduction of a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with 'other comprehensive income'. The adoption of the revised standard will not affect the results or net assets of the Group as it is only concerned with presentation and disclosures.
- IFRS 2 (amendment) 'Share based payments' deals with vesting conditions and cancellations. The Group will apply IFRS 2 (amendment) from 1 April 2009. It is not expected to have a material impact on the Group's current financial statements.
- IFRIC 14 'IAS 19 – The limit on defined benefit asset, minimum funding requirements and their interaction'. If the interpretation was applied to the current reporting period, there would be no material impact on the Income Statement or Retained Earnings at the year end.