

The global distributor for engineers

**[www.electrocomponents.com](http://www.electrocomponents.com)**



**Electrocomponents plc**

Annual Report and Accounts  
for the year ended 31 March 2014  
Stock Code: ECM

# Welcome

We are Electrocomponents, the global distributor for engineers.

Below is a snapshot of who we are and how we operate. There are signposts below to key sections of this report that we hope will enable readers to understand our marketplace and business model, assess our most recent performance and learn about our strategies and growth ambitions for the future. We also discuss the risks the business is likely to face as it seeks to achieve these ambitions.

<b>Strong brands</b>      Watch the video online <a href="http://www.electrocomponents.com">www.electrocomponents.com</a>	<b>eCommerce driven marketing</b> <b>58%</b> of sales via eCommerce   See page 12 for Our Strategy	<b>Large, locally-based sales force</b> <b>2,500</b> sales people globally   See page 22 for Business and Financial Review
<b>Leading global suppliers</b>  <b>Over</b> <b>2,500</b> suppliers   Read more online <a href="http://www.electrocomponents.com">www.electrocomponents.com</a>	<b>Broadest product range in industry</b>  <b>Around</b> <b>500,000</b> products   See page 10 for Business Model	<b>Targeting engineers &amp; their buyers</b>  <b>More than</b> <b>1 million</b> customers   See page 08 for Marketplace
<b>Network of 17 distribution centres</b>  <b>Delivering</b> <b>44,000</b> parcels every day   See page 14 for Group Chief Executive's Review	<b>Sophisticated global IT network</b>  <b>50+</b> critical systems   See page 28 for Principal Risks and Uncertainties	<b>People at the heart of the business</b>  <b>Around</b> <b>6,300</b> employees   See page 34 for Corporate Responsibility

# In this report

## Business Model



Read more in this report

Our business model has existed for over 75 years. It is designed to save our customers, principally engineers and buyers, time and money. For further information on our **Business Model** and how we make money go to

**Page 10**

## Our Strategy



Read more in this report

A new global strategy was introduced last year in order to put the business in the best possible shape to capture our growth opportunities. For further information on **Our Strategy** go to

**Page 12**

Visit us online at

[www.electrocomponents.com](http://www.electrocomponents.com)



## Strategic Report

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### Look out for these icons:

Watch the video online

Read more online

Read more in this report

**Strategy in Action**

# Working together to deliver an extraordinary customer experience

**Building a consistent global offer**

**TE Connectivity (TE), a \$13 billion world leader in connectivity with nearly 90,000 employees in over 50 countries, is our largest electronics supplier.**

TE designs and manufactures components that are found in nearly every product in the world that uses electronics in industries including energy, industrial, broadband, consumer devices, automotive, aerospace and defence.

With their expertise and design capabilities, TE builds the connectors, systems and solutions that engineers rely on to transport power and data, helping to solve today's biggest connectivity challenges in new and creative ways. Investment in innovation allows TE to not only meet, but anticipate, customers' needs.

Electrocomponents' vast engineering customer base, worldwide presence, eCommerce capabilities and free online tools help ensure that TE's unmatched product portfolio is available to customers,

saving time and money by accelerating the design process and simplifying product sourcing and purchasing.

Canda Carr, Vice President, Global Channel Sales at TE, commented: "TE is committed to the highest standards of innovation, quality, availability, and service and support, underscored by a commitment to delivering an extraordinary customer experience. Electrocomponents is aligned with this strategy through their global level-up programme, making sure their extensive range of TE products is consistently stocked and promoted. Electrocomponents' worldwide presence gives TE access to a large and diverse customer base, increasing exposure of our products across new markets and ensuring customers benefit from the highest service levels."



Our Business

Our Performance

Corporate Governance

Financial Statements

Shareholder Information

# Highlights 2014

2014 was the first year of our new medium-term business plan. Below are the key financial and operational highlights of the year.

## Key numbers

Headline profit before tax	Group sales growth *	eCommerce sales share
<b>£101.1 million</b> (2013: £94.1 million <sup>†</sup> )	<b>2.1%</b> (2013: 0.5%)	<b>58%</b> (2013: 56%)
Headline return on sales	Headline return on capital employed	Headline free cash flow
<b>8.3%</b> (2013: 8.1% <sup>†</sup> )	<b>20.9%</b> (2013: 18.5% <sup>†</sup> )	<b>£58.3 million</b> (2013: £56.1 million)

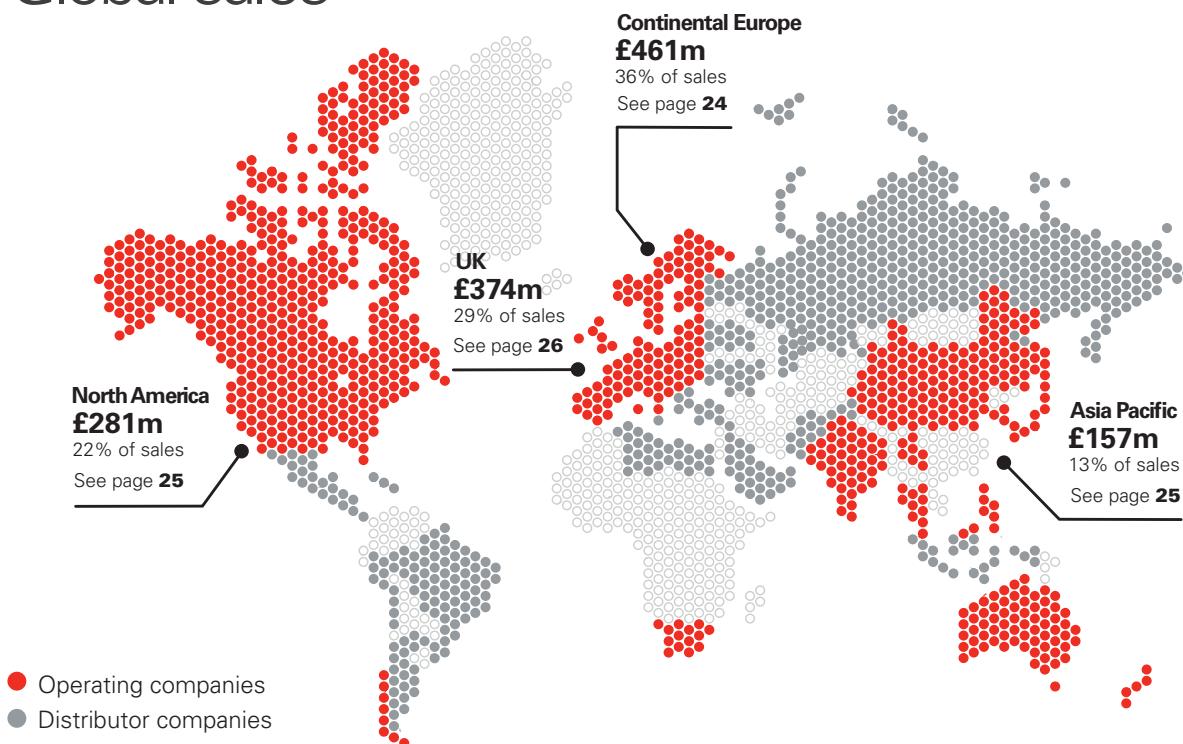
\* Adjusted for trading days and currency movements.

<sup>†</sup> Restated for the changes in IAS 19R Employee Benefits.

## How are we progressing with our strategy?



## Global sales



## Reasons to invest

Well-established global market leader	Growing markets	Structural growth opportunity	Ambitious targets
<p>Our two well-established brands, RS Components (RS) and Allied Electronics (Allied), have existed for more than 75 years and have grown to produce a Group that is a global leader in its marketplace, covering around 90% of the world's GDP.</p>	<p>The markets we operate in grow faster than GDP on average. This is driven by electronic components demand, which grows at around twice GDP through the business cycle, with continued innovation increasing the proliferation of electronic components in everyday life.</p>	<p>The marketplace we operate in is highly fragmented, with numerous smaller competitors. There are clear benefits to being a large, global competitor in this marketplace, meaning we are well placed to take a greater share of this fast-growing market over time.</p>	<p>We have raised our growth ambitions for the Group. We expect that the execution of our global strategy will deliver market share gains in our international markets, leading to higher sales growth and improved financial performance over the medium-term.</p>

See page 10 for **Business Model**

See page 08 for **Marketplace**

See page 12 for **Our Strategy**

See page 20 for **Key Performance Indicators**

# Chairman's Report

Welcome to the 2014 Electrocomponents Annual Report.



This annual report is our first since new reporting regulations have required the inclusion of a strategic report and confirmation by the Directors that the report, taken as a whole, is fair, balanced and understandable. The content of this strategic report is not significantly different to content that has been presented in previous years, though we have enhanced our reporting of key performance indicators (KPIs – page 20) and the principal risks and uncertainties our business faces (page 28). We have made greater use of cross-referencing and signposting between various sections of the report to make it more cohesive. We have also tried to use clear and concise language and to improve the transparency of our reporting. We hope that this will help shareholders assess the Company's past performance, its main objectives and strategies going forward, and the key risks it faces in the pursuit of these.

## Strategy and medium-term business plan

Last year I reported on the changes we had made to the Group's organisation and strategy, which are designed to deliver improved financial performance for shareholders over the medium-term.

In the past 12 months the new organisation has bedded down, the plan is being implemented and good early progress against our strategic priorities is being delivered. Details of these are in the Our Strategy section (page 12) and Group Chief Executive's Review (page 14). I would also like to highlight the significant strides made in rolling out our global systems platform across Asia Pacific, the improvements to

search functions on our website and the initial steps taken to build a global offer by developing a consistent global range with strategic suppliers such as TE Connectivity and Omron.

We have an ambitious plan, and the scale and complexity of what we have set out to do over the coming years is significant. As the strategy is implemented we will ensure we learn lessons and adapt our plans accordingly. The Board regularly reviews our overall strategy, business plan and progress on implementation. We remain confident the Group is set on the right course to grow market share and improve financial performance over the medium-term.

## Trading performance

The Group grew underlying sales (adjusted for trading days and currency movements) by 2% over the past year. Group underlying sales growth improved from around 1% in the first half of the year to around 3% in the second half, partially reflecting improving global markets, as illustrated by the increase in manufacturing Purchasing Managers Indices (PMIs) in many developed markets. All our International regions contributed to this improvement, most notably Continental Europe, where we benefited from improving PMIs and took market share from our numerous smaller competitors. This continues a long-standing trend of share gains by our International business; we estimate that over the period 2006 to 2013 around half of our International compound annual sales growth of 6% was attributable to market share gains.

Our strategy is focused on growing customer numbers, eCommerce sales and sales of our 'Famous For' product range (comprising our electronics and automation and control categories). All three of these operational measures grew faster than total Group sales. More information on these, and our other KPIs, can be found on page 20.

Underlying sales growth of 2% contributed to headline profit before tax increasing by 7% to £101 million, reflecting a stable gross margin and growth in operating costs (at constant exchange rates) of 2%. Headline profit before tax growth also benefited by around £4 million from additional trading days and favourable currency movements, without which growth in headline profit before tax would have been 3%.

Our business model is highly cash-generative and Group headline free cash flow during the year remained strong at £58 million (compared with £56 million in the prior year), even after the planned increase in capital expenditure from £27 million to £36 million required to deliver our strategy. Free cash flow as a percentage of sales at 4.6% was within the parameters set out in our medium-term performance framework, as is the Group's return on capital employed of 21%. This remains well ahead of our weighted average cost of capital (for more information on these KPIs please refer to page 20).

### **Dividend**

The Board is proposing an unchanged final dividend for the year of 6.75 pence per share. This will be paid on 29 July 2014 to shareholders on the register on 27 June 2014. As a result, the total dividend for the year will be 11.75 pence per share, resulting in headline earnings dividend cover of 1.4 times.

The Board continues to believe that the business has significant opportunities to invest for growth at attractive returns, as encapsulated in the Group's medium-term business plan. As previously stated, over time and as earnings increase, the Board intends to pursue a progressive dividend policy whilst increasing headline earnings dividend cover towards two times.

### **Governance**

The Board and its committees have worked effectively throughout the year. The Board is closely involved with the development of Group strategy, as well as scrutiny of progress towards its implementation and ongoing performance.

An external, independent evaluation of the Board's structure, composition and performance, carried out in autumn 2013, concluded that the Board works well, is engaged and committed and has broad diversity. Recommendations on improvements to target setting and review, succession planning and competitor analysis have been implemented.

After five years, Adrian Auer is standing down from the Board. His extensive experience has been of great benefit to the Board and we will miss him. I would like to thank him for his valued contribution. Recruitment of a successor is underway.

The Board is fully committed to showing leadership in fostering diversity of gender, race and nationality throughout all levels of the business, and ensures it considers candidates from all such backgrounds and irrespective of physical disability when appointing new Board members.

During the year the Audit Committee oversaw an audit tender process which has resulted in the intention to change auditors, subject to shareholder approval at the 2014 Annual General Meeting. The Board also reviewed its approach to risk management, resulting in an even greater focus on those risks which could have a large impact on shareholder value.

There is more detail in the Corporate Governance section on pages 42 to 91 than in the past, most notably in the Directors' Remuneration Report where we have clearly set out how our remuneration policy supports the business' strategy. We hope that these changes will help readers understand the work of the various Board committees and the role they play in promoting the long-term success of the Group.

### **Corporate responsibility**

As members of the FTSE4Good Index, corporate responsibility is integral to our business. Our greatest focus is on our employees, through ensuring a safe and healthy working environment and engaging them fully in our business strategy and operations. The Board provides clear leadership in both these areas. We are also strongly committed to being good citizens, playing a full part in the communities in which we operate and controlling our impact on the environment. More information on our approach to corporate responsibility can be found on page 34.

### **Employees**

The success of the Group in its ability to grow and achieve its ambitions is totally dependent on the talents and efforts of our employees. As a Board, whenever we visit our operations, either together or individually, we are always delighted at the enthusiasm, commitment and dedication shown by our colleagues, even through the period of change and uncertainty many have experienced in recent years. I am delighted to see the way our employees have embraced these changes and engaged with the new strategy, and it is pleasing to see that the most recent employee engagement survey reported an improvement in employee engagement. On behalf of the Board I would like to thank them all.

### **Peter Johnson**

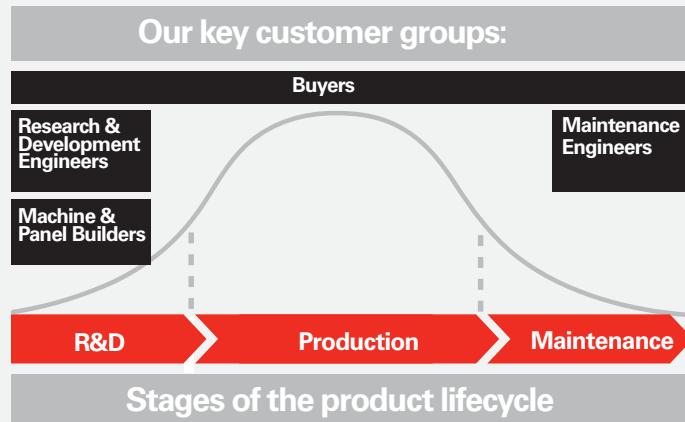
Chairman  
22 May 2014

# Marketplace

The demand that we serve and our market opportunity.

## > 1 million customers

Our business mainly serves the demand created by engineers at the start and end of a product life cycle.



## Typical Order Characteristics

Average order circa £150

Average order contains 2-3 product lines

Wide variety of products per order





### Structural growth opportunity in growing and fragmented markets

The markets we operate in grow faster than GDP through the cycle. This is driven by electronics component demand, which grows at twice GDP whilst maintenance components demand typically grows at the same rate as GDP. However, electronics component demand is typically

more volatile than the economic cycle, as spending on new technological innovation can easily be halted and then re-started. Maintenance component demand, in contrast, is typically less volatile and more aligned to the economic cycle.

The supplier base serving this demand is highly fragmented, being mainly populated by a large number of small local and regional distributors. There are five large international distributors, of which Electrocomponents is the largest, who together have around 15% of the available global market and who have, over time, been consistently gaining share from the smaller distributors. This trend is expected to continue for the foreseeable future.

See page 12 for Our Strategy to capture this structural growth opportunity, and page 14 for the Group Chief Executive's Review, where there is further discussion of this opportunity.

**GLOBAL MARKET CIRCA  
£30 BILLION**

**ELECTROCOMPONENTS  
THE LEADING  
GLOBAL DISTRIBUTOR**

**TOP 5 DISTRIBUTORS  
SHARE 15%  
OF MARKET**

**HIGHLY FRAGMENTED  
85%  
PROVIDES BIGGEST  
OPPORTUNITY**

# Business Model

Our business model is focused on saving our customers time and money, and delivering them peace of mind.



See page **28** for  
**Principal Risks**  
and Uncertainties

## Global component distribution

The business model we operate today is largely unchanged in principle from that designed by the Company's founders over 75 years ago. The key stages are highlighted in the diagram on the opposite page and described below.

We make money by providing reliable and fast delivery of small quantities of a vast range of quality products to customers. We provide multiple ways for them to transact with us, and provide support and tools to help them make their transaction with us a quick and simple process. With this focus on providing high levels of customer service, the business is able to earn a high return on the broad range of stock it holds.

### 1. Supplier management

We work closely with over 2,500 major suppliers of semiconductors, interconnect, passives and electromechanical components, automation and control components, electrical, test and measurement products and tools and consumables to ensure we have the right products in stock to fulfil customer demand.

### 2. Offer presentation, sales and marketing

We present this offer of leading products using rich and full content via web and catalogue, backed up by technical support and design tools, so that customers can make informed purchase decisions.

Our highly-skilled sales teams are deployed to optimise this stage of the process for our high-value customers, whilst our digital resources are used to market to all customer types.

We price our offer competitively, changing prices on our leading global brands regularly and offering own-brand products within certain parts of our product range to supplement our offer to customers.

### 3. Inventory management

Our global network of 17 distribution centres houses around 500,000 products. Fast-moving products are stored close to the local market to enable next day delivery, with medium-moving products being stored regionally and new products and slower-moving products stored at a global warehouse.

### 4. Order receipt and management

Customers can place orders via the internet, phone, email, mobile, fax or in person. No minimum order quantity is required. Orders are picked and packed within several hours of receipt, with around 44,000 orders being processed every day.

### 5. Reliable delivery

We pride ourselves on giving our customers peace of mind by delivering the full order on time. The majority of our orders are for next day delivery and we outsource the transportation of parcels from the distribution centres to customers to the major global freight forwarding companies.

See page 12 for Our Strategy to execute this business model in the manner that we believe will most effectively serve our marketplace and take advantage of the structural growth opportunity available to us.

## Why customers choose us

**Range and availability** — we stock the broadest range of products, which saves customers the time and expense of managing multiple suppliers and minimises their inventory costs. We sell genuine, high-quality products from over 2,500 known and trusted brands.

**Service accuracy** — customers trust our fast and reliable on-time delivery; they benefit from same-day despatch and avoid downtime. We also provide online and telephone technical support to help customers with their purchase decisions.

**Ease of doing business** — with no minimum order, customers can buy as few or as many parts as they need. They can choose how to transact with us (online, in person, by phone, mobile, email or fax), when they want to. Our award-winning, easy-to-use free design tools and eCommerce solutions save customers time and money.

**All at a fair price** — we change over 15 million prices every year to ensure we stay competitive and provide a range of around 40,000 own-brand products, ensuring best value for money.

# Our Strategy

Our global strategy comprises **seven** strategic priorities.



## Grow Target Customers WITH

We will increase corporate customer numbers and our sales to existing customers by focusing on four core groups: Electronic Design Engineers, Machine and Panel Builders, Maintenance Engineers and Buyers.



## One Global Offer AND

We will get more products to customers by making 75% to 85% of our range available to all our customers across the world without compromising our reliable, high level of service. We will be Famous For electronics and automation and control, and will focus on driving a higher return on stock.



## eCommerce with a Human Touch PROVIDING

We will significantly develop eCommerce to acquire customers at a faster rate than before, and our medium-term target remains for 70% of our business to be transacted online. For high-value customers we will deploy our highly skilled sales people to nurture these opportunities. By allocating digital and human resources more effectively we will manage our customer base more profitably.



See page **14** for the Group Chief Executive's Review



See pages **02, 40** and **92** for Strategy in Action Case Studies



See page **20** for Key Performance Indicators



See page **28** for Principal Risks and Uncertainties

### Milestones in 2014:

- Corporate customer numbers increased by 3% during the year
- Sharing of best practice on deployment of the sales force led to improved sales growth performance in Europe
- Development of aligned sales, offer and marketing business plan for each customer type
- More effective management of customer life cycle

### Focus for 2015:

- Large accounts strategy
- Develop our real-time customer feedback tools

### KPIs:

- Group sales growth
- Customer numbers growth

### Risks:

- Increasing competition
- Customer acquisition

### Milestones in 2014:

- Famous For sales growth of 4%, around twice the Group sales growth rate
- Added c. 60,000 new products
- Developed more globally consistent range for products from TE Connectivity, Omron, ON Semiconductor, Panasonic, Honeywell and Phoenix Contact
- Reduced stock provisions as a percentage of gross stock

### Focus for 2015:

- Continued development of more globally consistent range across RS and Allied
- Implement global planning tool across RS
- Develop and begin implementation of new product management tool

### KPIs:

- Group sales growth
- Group return on sales
- Headline return on capital employed
- Headline free cash flow as a percentage of sales
- Famous For sales growth

### Risks:

- Increasing competition
- Effective range management
- Product data integrity
- Regulatory compliance

### Milestones in 2014:

- eCommerce sales growth of 6%, around three times the Group sales growth rate
- Improved search and browse functionality on websites
- eProcurement solutions sales growth of 13%
- Developed global nursery programme

### Focus for 2015:

- Begin preparation for upgrade to web platform
- Embed new ways of working to enable faster development of website functionality
- Increased spend on digital marketing
- Sales force best practice sharing

### KPIs:

- Group sales growth
- eCommerce sales growth

### Risks:

- Increasing competition
- Customer acquisition



## Value for Money WITH A

We will transform our customers' perceptions of the value we offer them, through the consistent, global execution of our strategy. There will be a step change in how we communicate our value and why this sets us apart from the competition, supported by dynamic pricing.



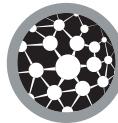
## High Performance Team USING

Our people will ensure the successful delivery of our strategy. Our focus will be on driving a high performance culture that equips our people with the skills and capabilities that they need to achieve our growth ambitions.



## Business Insight AND

We will increase our capability to turn data into insight and understanding, through consistent global data, improved data tools and a culture where we actively seek new insights.



## World Class Systems

We will create a world class infrastructure and our systems will be built on a single platform to give us pace and agility. A globally-connected freight network will deliver a fast, reliable service for customers.

### Milestones in 2014:

- Delivered stable Group gross margin
- Product technology pricing strategies implemented across UK and Europe
- Discount effectiveness programme implemented across RS
- Increased capability to change and monitor prices
- Price perception measurement tool developed

### Focus for 2015:

- Maintain focus on Group gross margin
- Implement product pricing strategies across Asia Pacific
- Implement price perception measurement tool
- Share best practice across RS and Allied

### KPIs:

- Group sales growth
- Group return on sales
- Group gross margin

### Milestones in 2014:

- Successfully embedded new global operating model
- Established a Group change management and programme management capability
- Developed action plans to respond to first global employee engagement survey
- Second global engagement survey completed, resulting in an increase in employee engagement

### Focus for 2015:

- Implement a global HR management system
- Enhance and act upon our employee engagement action plans
- Develop career structures

### KPIs:

- Group lost time accident rate

### Milestones in 2014:

- Implemented a new SAP-based business intelligence (BI) system
- Begun using new BI system to establish global product data tool

### Focus for 2015:

- Resource and establish central BI capability
- Drive more effective insight of product data via BI system
- Begin using BI system to establish global customer data tools

### Milestones in 2014:

- Implemented SAP-based system in South East Asia and Greater China
- Commenced implementation of disaster recovery system in Allied
- Begun development of new enterprise architecture

### Focus for 2015:

- Implement SAP-based system in Japan
- Put new enterprise architecture foundations in place to enable faster pace of system and business change
- Implement additional environments for testing of system changes

### Risks:

- Increasing competition
- Customer acquisition
- Pricing risk
- Product data integrity

### Risks:

- People risk

### Risks:

- Product data integrity

### Risks:

- Key infrastructure dependencies
- Cyber risk

# Group Chief Executive's Review



## Market environment

The market environment improved as the year progressed. This was reflected in the Group's sales growth rates, which improved from 1% in the first half (on a day-adjusted, constant currency basis) to 3% during the second half. This improvement did not occur in a consistent manner. After a step-up in sales growth rates in the autumn, growth faltered during December and January (these months were noticeably impacted by severe weather conditions in North America which kept many of our customers away from their workplace) before another step-up was seen in February and March.

The most important indicator of our market conditions remains the manufacturing Purchasing Managers Indices (PMIs). In the early part of the year the PMIs in the UK, Europe and Japan improved to a reading above 50, which is indicative of a return to growth in the manufacturing sector in these countries. In the US and China the PMIs have been relatively stable, with

the US reading slightly above 50 and China reading around 50 for most of the year. We believe that the Group's improved sales growth performance in the second half of the year in part reflects this more favourable PMI backdrop.

Trade associations from within the electronics distribution industry, such as the Association of Franchised Distributors of Electronic Components (AFDEC) and National Electronic Distributors Association (NEDA), have reported improving activity levels from their members during the year. In addition, the large volume electronics distributors have reported a return to sales growth during the year and improving order book trends. This more favourable electronics environment has also begun to feed through to our business, with our electronics product categories, an important part of our Famous For product range, showing a return to sales growth of 3% in the year, having been in slight decline for much of the past two years.

Whilst our market backdrop is more robust than it was a year ago it remains difficult to predict future sales growth, particularly given our limited order book visibility.

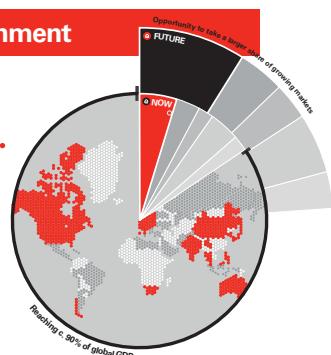
## International share gains and margin expansion

During the year the International business grew sales by 4% (on a day-adjusted, constant currency basis). Whilst there has been a more favourable market backdrop as the year has progressed we have supplemented this by taking market share from the numerous small distributors against whom we primarily compete.

Within the International business the share gains have been greatest in our Continental Europe region. This partly reflects the fact that many of our smaller competitors in this region have found it difficult to obtain credit for several years now and therefore they have not been able to significantly invest

### Market environment

> 1 million customers



Global Market Circa £30 billion

Electrocomponents leading distributor



See page 08 for Marketplace

### Group sales growth

**2.1%**  
(2013: 0.5%)



See page 20 for  
Key Performance Indicators

in their product range, website or sales capabilities. This has created an opportunity for the larger global competitors, such as Electrocomponents, to gain market share by continuing to invest in these areas to enhance their service levels.

Continental Europe is also the region where the Group has made the greatest progress in implementing the new global strategy, particularly with regards to the sharing and rolling out of global best practice in sales and marketing. The progress we have made implementing our new global strategy is discussed further below.

When we introduced our global strategy last year we highlighted that during the period 2006 to 2013 around half of the 6% compound annual growth rate achieved by our International business was generated by share gains, with the other half coming from market growth. Our global strategy, introduced last year, is seeking to alter this sales growth composition such that more than half of our International growth comes from share gains, reducing our dependency on the market rate of growth.

The rate of sales growth of our International business is particularly important as this is where we have the greatest ability to generate economies of scale and improve the International business' contribution margin. Our UK business, where we are well penetrated in the marketplace having operated there for over 75 years, generates a contribution margin of around 28–29% which we believe is sustainable. Our International business, in contrast, generated a contribution margin of 16.7% last year. Whilst this was an improvement of around 70 basis points on the prior year, it is still considerably below the UK contribution margin. With all regions achieving similar levels of gross margin as the UK, except for North America (where the industry gross margin is lower), there is a significant opportunity for the International business to expand its contribution margin towards the UK level as it grows and generates economies of scale.

### UK profitability

When we introduced our global strategy last year we raised our ambitions for the UK business, targeting an average of 1% to 2% per annum sales and contribution growth through the cycle, rather than seeking to maintain absolute

contribution levels as had previously been the case. This increased ambition for the UK is based on our view that the UK manufacturing sector now provides a more stable trading environment than it did a decade ago.

During the year the UK business' sales declined by 2% (on a day-adjusted, constant currency basis). Sales trends improved in the second half versus the first half, but not by as much as we had expected given the improvement in UK manufacturing PMI. Consequently, we have made a number of senior management changes. Whilst the UK sales performance was disappointing the UK business did improve its contribution margin by 120 basis points to 28.7% due to an increase in gross margin and good control of operating costs, and contribution increased by 4%.

### Strategy implementation

A new global strategy and a new global operating model for the business were introduced last year in order to put the business in the best possible position to capture the international growth opportunity described above whilst maintaining our strong UK position and profitability.

In the past 12 months the new global operating model has bedded down, and there has been good early progress implementing the global strategy and delivering our seven strategic priorities (comprising four growth initiatives supported by three enablers). Below is information on some of the key strategic milestones achieved over the past year. A summary of each element of the strategy, the milestones achieved during the past year and the focus for the coming year, can be found on pages 12 and 13, Our Strategy.

Accompanying the global strategy last year we also set out a new medium-term performance framework to reflect our increased ambition. We report on the four elements of this medium-term performance framework, together with key operational performance measures that we use to monitor our strategic progress, on pages 20 and 21, Key Performance Indicators.

### International sales growth

**3.8%**  
(2013: 0.8% decline)



See page 22 for  
**Business and Financial Review**

### International contribution margin

**16.7%**  
(2013: 16.0%)



See page 10 for our  
**Business Model**

### UK contribution margin

**28.7%**  
(2013: 27.5%)



See page 12 for  
**Our Strategy**

# Group Chief Executive's Review continued

## Strategic progress during the year

### Four Growth Initiatives

#### 1. Grow Target Customers



Across the Group, corporate customer numbers have increased by 3% since the end of last year.

Some of this growth reflects the initial realisation of the benefits from sharing best practice on when and how to deploy the human touch to more effectively grow customer numbers. For example, our French business had previously developed a customer qualification process, working with our suppliers to identify which industry sectors and customers had high growth potential and warranted a targeted sales approach. During the year we shared this best practice from France with our smaller European markets, helping businesses like our Spanish business attract new customers and deliver strong underlying sales growth in the period.

Customer growth was also aided by driving a significant increase in traffic to our websites and our continued focus on providing great service to engineers via our family of free, easy-to-use design tools, DesignSpark. In the middle of the year we successfully launched our latest such tool, DesignSpark Mechanical. This fast 3D modelling and assembly tool brings 3D design capability to mechanical engineers, helping them to bring innovative products to market quickly. In the first seven months following its launch there have been over 70,000 activations of the software, with a large proportion of these coming from new contacts.

We also made progress developing an integrated strategy for each of our four target customer types to ensure our sales, offer and marketing approach and service levels are targeted to each group, and we are now managing customers more effectively across the customer life cycle.

#### 2. One Global Offer



Our five product categories are built to service our four target customer groups and there are clear, distinct strategies for each. Our Famous For range, comprising semiconductors, interconnect, passives and electromechanical, and automation and control product categories, are actively promoted and are the primary growth driver for the Group. During the year, the Famous For range grew underlying sales by 4%, around twice the Group sales growth rate. Our two other product categories, electrical, test and measurement, and tools and consumables, are included in our Other Maintenance range. We aim to defend and grow these product categories whilst focusing on return on stock.

Across the Group we added around 60,000 new products to our range during the year, slightly below the 70,000 products added in the previous year. This is in line with our objectives of improving the quality of our range by focusing new product investment on the Famous For product categories and building a more consistent global offer. During the year we took our first significant steps towards this second element. We have completed the build of a more consistent global offer across RS and Allied for our TE Connectivity product range, and have begun this process with ON Semiconductor, Omron, Honeywell, Panasonic and Phoenix Contact. This means that there are around 30,000 additional products now available to customers globally that previously were only available in certain regions. As at the end of the year, around 10% of our product range was available to customers anywhere in the world. These initial pilots have successfully proven the concept, and moving forward we will now look to scale up our ability to conduct a range level-up so that we can proceed at a faster pace over the next few years.

The new way in which we manage our product categories has enabled us to improve our management of our stock. Stock provisions as a percentage of gross stock have fallen from 11% last year to 10% this year. All of the above has been achieved whilst maintaining our high and reliable levels of service.

**3. eCommerce with a Human Touch**

During the year our eCommerce channel grew sales at 6% in the year, significantly ahead of the 2% Group sales growth. eCommerce channel share, up 2% points in the year to 58%, continues to move towards our medium-term target of 70%.

This growth has been driven by a number of factors, including enhanced search functionality, increased investment in search engine marketing (SEM) and the clear value provided by our human touch, which manifests itself in the strong sales performance of our eProcurement solutions for larger customers and in our Live Chat service, amongst other initiatives.

Improved search functionality has made it even easier for our customers to do business with us. Visitors to our websites now get more relevant and clearer product information and have the ability to browse quick views of product specifications. Together with improvements we have made to the speed and effectiveness of the search filtering functionality, customers are now able to find and buy the products they need faster.

We have driven a significant increase in traffic to our RS websites over the year, reflecting an increase in SEM investment of over 10%. Offsetting this increased SEM spend has been a reduction in our expenditure on catalogue marketing of a broadly equivalent amount.

Our eProcurement solution, sales of which grew by 13% in the year, helps large customers reduce their total cost of procurement. During the year our sales force worked hard to market the solution's benefits, resulting in sales to our large customers across RS outperforming the overall customer base. We also completed the global roll-out of our Live Chat service across RS during the year. The service includes both sales chats, when customers are invited to chat based on their behaviour on site, and service chats, when customers can click a button to initiate a chat themselves. This service is now live in 29 countries in 19 languages across the world.

**4. Value for Money**

This strategic priority is concerned with improving customers' perception of our range, availability and price. This is underpinned by our global price differentiation strategy, which is designed to enable us to capture more value from our slower-moving products. This will partially mitigate our investment in margin to improve our value for money proposition to customers of our fast-moving products. We made particular progress with this strategy in the UK and Continental Europe, and have begun to implement this strategy in Asia Pacific. This strategy, together with actions implemented to improve our customer discount effectiveness, has enabled the business to deliver a broadly stable Group gross margin in the year (see Operational KPIs on page 21).

During the year we significantly increased our communication on our Value for Money strategic priority and we also carried out pricing experiments to improve our knowledge of how different product categories react to price movements and price messaging. We rolled out a price perception measurement tool in the UK, the US and China to help us understand how both existing and potential customers view our prices, and plan to take this tool into more of our markets during the coming year.

**Three Strategic Enablers****1. High Performance Team**

The major milestone for this strategic priority was the achievement of a smooth transition from our previous country-based operating structure to a global operating model that is functionally-based but which retains the value of a local sales presence.

Our first global employee engagement survey in spring 2013 showed above average levels of employee engagement. During the year we then developed action plans across the Group to enable us to improve upon these levels of employee engagement and in spring 2014 we undertook our second global employee engagement survey to check how we were progressing with these action plans. This reported an

**New products added**

**c. 60,000**  
(2013: c. 70,000)



See page **02** for our  
**Strategy in Action**

**eCommerce sales growth**

**6%**  
(2013: 4%)



See page **92** for our  
**Strategy in Action**

**Gross margin stability**

**45.9%**  
(2013: 46.0%)



See page **22** for  
**Business and Financial Review**

## Group Chief Executive's Review continued

improvement in employee engagement levels, which we will look to build on in the coming year. We have also invested in building our programme management capabilities to ensure we are well-equipped to deliver our growth ambitions.

### 2. Business Insight



During the year we defined, built, installed and implemented a new SAP-based business intelligence system on time and in budget. The systems will support quicker and more effective data analysis and insight. We are leveraging this new system to establish global product data tools. We are now generating product reports significantly faster than before and are putting in place training to enable users to utilise these tools and reports to generate improved product insight for the business.

### 3. World Class Systems



During the year we successfully installed a SAP-based system in South East Asia and Greater China. These are the second and third of our four sub-regions in Asia Pacific to move to this system, following Australasia which went live with its new system in December 2012. Asia Pacific is the last of the Group's regions to move to a SAP-based system. During the coming year our systems implementation focus moves to the final sub-region, Japan. Having all four global regions on a common SAP-based system will allow all of our markets to have greater and faster access to the Group's strategic initiatives.

We have begun the initial work required to separate the front office, middle office and back office of our systems architecture to enable more change to occur in the business, faster; this work will continue into the coming year. We have also commenced the installation of a new disaster recovery system for Allied.

#### Strategic focus for next year

Looking into the 2015 financial year, the strategic emphasis will be on our One Global Offer and eCommerce with a Human Touch strategic priorities, though as highlighted on pages 12 and 13, Our Strategy, there will be ongoing developments in all seven of our strategic elements next year.

Within the One Global Offer strategy we plan to work with more of our major suppliers to build a more consistent global range in their product categories, using the lessons we learnt this year to enable us to move faster as we extend the process to additional suppliers. We also intend to implement a global planning tool that will improve our supply chain planning

effectiveness and demand planning across the RS distribution network. The third major area of focus for this strategic priority next year is the development of a new product management tool to allow us to consistently manage the life cycle of our products globally whilst remaining compliant with local market regulations.

The eCommerce with a Human Touch strategic focus will be on the preparation for the upgrade of our web platform which we plan to commence during the year. This will be designed to enable improved functionality to enhance our competitive edge and alongside this we will embed new ways of working to enable us to drive a faster pace of change to our website.

Other important strategic developments planned for the coming year include the roll-out of a SAP-based system in Japan. This will complete the SAP-based system implementation in Asia Pacific, the last of the Group's regions to move to this system. We also plan further systems investment in order to enable the business to make more changes faster, including a new enterprise architecture as well as a second testing environment.

We will retain our focus on growing our four customer types, implementing a new customer insight tool and communicating our value proposition in a globally consistent manner to improve brand awareness.

#### Current trading and outlook

In the first seven weeks of the new financial year the Group has delivered sales growth of 2%. Sales trends in May to date have improved as compared to April, which was impacted by the timing of Easter holidays. The International business grew by 4% and the UK declined by 3% (UK sales decline excluding Raspberry Pi was 2%). Within International, Continental Europe grew by 1%, North America grew by 6% and Asia Pacific grew by 8%.

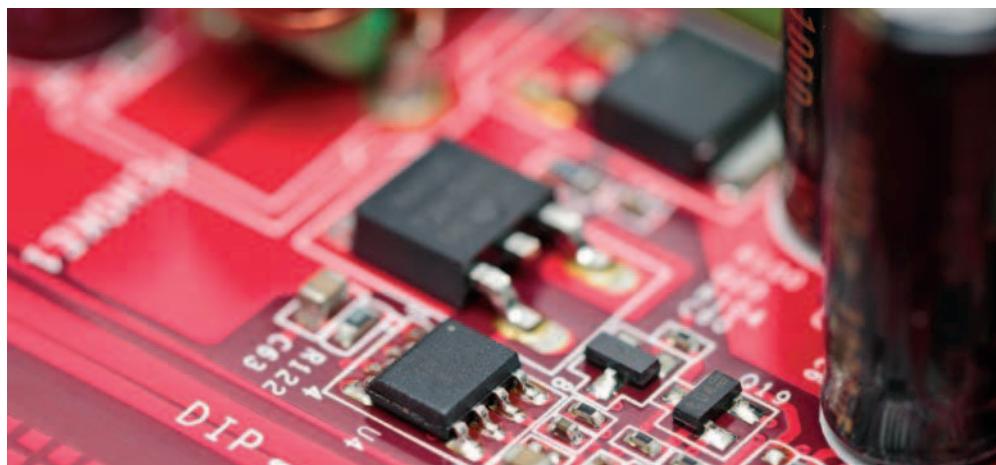
Whilst the global economic recovery is uneven and there are foreign exchange headwinds, we will continue to invest in our strategic initiatives. We expect to make further progress towards our medium-term performance goals during the coming year.

#### Ian Mason

Group Chief Executive  
22 May 2014

## Our Famous Four Product Categories.

The product categories below constitute around 55% of our sales; they will be our growth drivers and we expect them to grow at around twice GDP through the cycle.



### Semiconductors

Semiconductors are at the heart of any electronic device and the starting point of any new electronics design. This is why our customers need them and this is why we focus on providing a broad range of high quality products.



### Interconnect, Passives and Electromechanical (IP&E)

Virtually all electronic and electrical systems require interconnect, passive and electromechanical components. Thanks to the strong relationships we have with our IP&E suppliers, we can offer our customers quick, easy access to the broadest range and most innovative components on the market.



### Automation and Control (A&C)

We are committed to enhancing our portfolio of A&C products, including stop switches, motor controls and industrial cabinets. We are focused on being the main supplier for small and medium enterprises machine and panel builders, on-site maintenance engineers and buyers.

# Key Performance Indicators

Priority	Financial KPIs	Definition	Performance						
   	<p><b>Group sales growth</b></p> <p>We are targeting an average Group sales growth rate of 5% to 8% per annum through the cycle. This compares with our historical average of 4% Group sales growth per annum. We expect International sales growth to average between 7% and 10% per annum through the cycle (compared with a historic average of 6% per annum), and we expect UK sales growth to average between 1% and 2% per annum through the cycle (compared with a historic average of 1% per annum).</p>	<p>Underlying sales growth, adjusted for trading days and currency movements.</p>	<table> <tr> <td><b>2014</b></td><td><b>2.1%</b></td></tr> <tr> <td><b>2013</b></td><td><b>0.5%</b></td></tr> <tr> <td><b>2012</b></td><td><b>6.9%</b></td></tr> </table> <p>An improvement on 2013 but below the target range, reflecting the early stage of the global economic recovery.</p>	<b>2014</b>	<b>2.1%</b>	<b>2013</b>	<b>0.5%</b>	<b>2012</b>	<b>6.9%</b>
<b>2014</b>	<b>2.1%</b>								
<b>2013</b>	<b>0.5%</b>								
<b>2012</b>	<b>6.9%</b>								
 	<p><b>Group return on sales</b></p> <p>We are targeting a through the cycle Group operating margin range of between 9% and 11%, which would represent an improvement on our historical performance of 7% to 10% (adjusted to reflect a 75:25 International:UK sales mix). This improvement is primarily driven by operating cost leverage. Our targets also assume that Group gross margin will reduce by around two percentage points over the medium term as we grow faster in lower-margin technologies and countries. Our global pricing strategy will enable us to partially mitigate the investment in margin we will make to improve our value for money proposition to customers.</p>	<p>Headline operating profit expressed as a percentage of sales.</p>	<table> <tr> <td><b>2014</b></td><td><b>8.3%</b></td></tr> <tr> <td><b>2013</b></td><td><b>8.1%</b></td></tr> <tr> <td><b>2012</b></td><td><b>10.1%</b></td></tr> </table> <p>An improvement on 2013 but below our target range.</p>	<b>2014</b>	<b>8.3%</b>	<b>2013</b>	<b>8.1%</b>	<b>2012</b>	<b>10.1%</b>
<b>2014</b>	<b>8.3%</b>								
<b>2013</b>	<b>8.1%</b>								
<b>2012</b>	<b>10.1%</b>								
 	<p><b>Return on capital employed</b></p> <p>Historically, the Group's return on capital employed (including goodwill) has ranged between 15% and 25%, significantly above the Group's weighted average cost of capital. We are targeting to raise this range to between 20% and 30% as the benefits of faster sales growth and continued strong cash generation are realised.</p>	<p>Headline operating profit expressed as a percentage of net assets plus net debt.</p>	<table> <tr> <td><b>2014</b></td><td><b>20.9%</b></td></tr> <tr> <td><b>2013</b></td><td><b>18.5%</b></td></tr> <tr> <td><b>2012</b></td><td><b>24.6%</b></td></tr> </table> <p>An improvement on 2013 and within our target range.</p>	<b>2014</b>	<b>20.9%</b>	<b>2013</b>	<b>18.5%</b>	<b>2012</b>	<b>24.6%</b>
<b>2014</b>	<b>20.9%</b>								
<b>2013</b>	<b>18.5%</b>								
<b>2012</b>	<b>24.6%</b>								
	<p><b>Headline free cash flow as a percentage of sales</b></p> <p>Our global strategy is being supported by increased investment. Combined with a slight improvement in stock turns and improved profitability we are targeting medium-term Group headline free cash flow to range between 4% and 6%.</p>	<p>Headline free cash flow is reported free cash flow before reorganisation cash flows. This is expressed as a percentage of Group sales.</p>	<table> <tr> <td><b>2014</b></td><td><b>4.6%</b></td></tr> <tr> <td><b>2013</b></td><td><b>4.5%</b></td></tr> <tr> <td><b>2012</b></td><td><b>4.2%</b></td></tr> </table> <p>Slightly above 2013 and within our target range.</p>	<b>2014</b>	<b>4.6%</b>	<b>2013</b>	<b>4.5%</b>	<b>2012</b>	<b>4.2%</b>
<b>2014</b>	<b>4.6%</b>								
<b>2013</b>	<b>4.5%</b>								
<b>2012</b>	<b>4.2%</b>								



**Grow Target Customers**



**One Global Offer**



**eCommerce with a Human Touch**



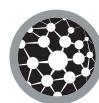
**Value for Money**



**High Performance Team**



**Business Insight**



**World Class Systems**

Priority	Operational KPIs	Definition	Performance						
	<b>Growth in customer numbers</b> In order to achieve our Group sales growth targets we will need to increase both corporate customer numbers and our sales to existing customers, with the first of these expected to be of greatest importance as we seek to increase our market share in our international markets.	Percentage increase in number of corporate customers placing an order during the year.	<table> <tr> <td><b>2014</b></td><td><b>3%</b></td></tr> <tr> <td><b>2013</b></td><td><b>3%</b></td></tr> <tr> <td><b>2012 n/a</b></td><td></td></tr> </table> <p>3% growth in Group corporate customer numbers.</p>	<b>2014</b>	<b>3%</b>	<b>2013</b>	<b>3%</b>	<b>2012 n/a</b>	
<b>2014</b>	<b>3%</b>								
<b>2013</b>	<b>3%</b>								
<b>2012 n/a</b>									
	<b>Group eCommerce sales growth</b> For the Group to deliver its Group sales growth target and achieve its medium-term growth ambitions it will need to continue to successfully grow its eCommerce business. We expect that eCommerce sales growth rate should consistently exceed the Group sales growth rate.	Growth in Group eCommerce sales.	<table> <tr> <td><b>2014</b></td><td><b>6%</b></td></tr> <tr> <td><b>2013</b></td><td><b>4%</b></td></tr> <tr> <td><b>2012</b></td><td><b>18%</b></td></tr> </table> <p>Group eCommerce sales growth was 6%, significantly ahead of the overall Group sales growth.</p>	<b>2014</b>	<b>6%</b>	<b>2013</b>	<b>4%</b>	<b>2012</b>	<b>18%</b>
<b>2014</b>	<b>6%</b>								
<b>2013</b>	<b>4%</b>								
<b>2012</b>	<b>18%</b>								
	<b>Famous For product sales growth</b> For the Group to deliver its Group sales growth target and achieve its medium-term growth ambitions it will also need to achieve its aim of being Famous For electronics and automation and control product ranges. We expect that the sales growth rate of our Famous For product ranges should consistently exceed the Group sales growth rate.	Growth in Famous For product sales.	<table> <tr> <td><b>2014</b></td><td><b>4%</b></td></tr> <tr> <td><b>2013</b></td><td><b>2%</b></td></tr> <tr> <td><b>2012 n/a</b></td><td></td></tr> </table> <p>Famous For product sales growth was 4%, around twice the growth rate of the Group's full product range.</p>	<b>2014</b>	<b>4%</b>	<b>2013</b>	<b>2%</b>	<b>2012 n/a</b>	
<b>2014</b>	<b>4%</b>								
<b>2013</b>	<b>2%</b>								
<b>2012 n/a</b>									
	<b>Group gross margin</b> A key component of the Group's medium term return on sales target is the delivery of a broadly stable Group gross margin, before allowing for product or geographical mix effects and currency movements. After allowing for mix effects, we expect Group gross margin to reduce by around two percentage points over the medium-term.	Group gross profit expressed as a percentage of Group sales.	<table> <tr> <td><b>2014</b></td><td><b>45.9%</b></td></tr> <tr> <td><b>2013</b></td><td><b>46.0%</b></td></tr> <tr> <td><b>2012</b></td><td><b>46.8%</b></td></tr> </table> <p>Group gross margin was stable.</p>	<b>2014</b>	<b>45.9%</b>	<b>2013</b>	<b>46.0%</b>	<b>2012</b>	<b>46.8%</b>
<b>2014</b>	<b>45.9%</b>								
<b>2013</b>	<b>46.0%</b>								
<b>2012</b>	<b>46.8%</b>								
	<b>Group lost time accident rate</b> The delivery of the Group's global strategy is dependent on our largest asset, our workforce, and we are committed to providing a safe and healthy work environment. We are targeting an ongoing reduction in the rate at which time is lost due to our employees suffering accidents in the workplace.	Number of lost time accidents per 200,000 hours worked.	<table> <tr> <td><b>2014</b></td><td><b>0.42</b></td></tr> <tr> <td><b>2013</b></td><td><b>0.60</b></td></tr> <tr> <td><b>2012</b></td><td><b>0.78</b></td></tr> </table> <p>30% reduction in the Group lost time accident rate.</p>	<b>2014</b>	<b>0.42</b>	<b>2013</b>	<b>0.60</b>	<b>2012</b>	<b>0.78</b>
<b>2014</b>	<b>0.42</b>								
<b>2013</b>	<b>0.60</b>								
<b>2012</b>	<b>0.78</b>								

# Business and Financial Review

## FINANCIAL PERFORMANCE AND POSITION

Financial Performance	2014	2013 as restated <sup>1</sup>
Sales	<b>£1,273.1m</b>	£1,235.6m
Gross margin	<b>45.9%</b>	46.0%
Headline contribution <sup>2</sup>	<b>£257.9m</b>	£241.0m
Headline Group Process costs <sup>2</sup>	<b>£(151.8)m</b>	£(141.3)m
Headline operating profit <sup>2</sup>	<b>£106.1m</b>	£99.7m
Headline return on sales <sup>2</sup>	<b>8.3%</b>	8.1%
Interest (net)	<b>£(5.0)m</b>	£(5.6)m
Headline profit before tax <sup>2</sup>	<b>£101.1m</b>	£94.1m
Headline free cash flow <sup>2</sup>	<b>£58.3m</b>	£56.1m
Headline earnings per share <sup>2</sup>	<b>16.3p</b>	14.9p
Dividend per share <sup>3</sup>	<b>11.75p</b>	11.75p
Net debt to EBITDA <sup>4</sup>	<b>1.1x</b>	1.2x

1. Restated for the changes in IAS 19R Employee Benefits. For further details refer to note 1 on page 102

2. Headline measures of profitability and cash flow are defined as the relevant reported profit/cash flow measure before reorganisation costs/cash flows. Additional trading days and currency movements increased headline profit before tax by £4 million
3. 2014: comprises 5p interim and 6.75p proposed final dividend
4. EBITDA: Earnings before interest, tax, depreciation and amortisation (inc. government grants)

### Sales

Group sales were £1,273.1 million, representing underlying sales growth of 2.1%. Group eCommerce sales growth was 6%, with eCommerce averaging 58% of Group sales during the year. Our Famous For products (comprising around 55% of Group sales) grew by 3.7%. These products outperformed our Other Maintenance products (comprising around 45% of Group sales), sales of which grew by 0.2%.

Additional trading days and currency movements increased Group reported sales by around £12 million.

### Gross margin

Group gross margin at 45.9% was stable with the prior year. This reflected favourable currency movements, offset by adverse geographic mix and some price repositioning in certain markets.

### Costs

Headline operating costs at constant currency increased by 2.3% (1.9% as reported). We benefited from the annualisation of the cost efficiencies arising from last year's implementation of a global organisation structure amounting to £3 million in the

year, all of which was reflected in the first half, together with lower stock provisions. These benefits were offset by fixed cost inflation, increased IT costs, higher depreciation and investment in our strategic growth initiatives, which was particularly focused on the second half. These factors are expected to continue into the coming financial year, leading to expected growth in headline operating costs at constant currency of around 5%.

### Headline profit before tax

Headline profit before tax was £101.1 million, an increase of £7.0 million (or 7.4%) on the prior year. The International business' contribution increased by £12.6 million (9.1%), driven by a strong performance from Continental Europe and North America, whilst the UK's contribution increased by £4.3 million (4.2%). Process costs increased by £10.5 million (7.4%), primarily reflecting inflation and additional IT costs and depreciation associated with the implementation of our global strategy. Net interest costs reduced by £0.6 million, reflecting lower net debt levels and lower interest costs associated with our new multicurrency European cash pool.

Group headline profit before tax benefited by £4 million due to additional trading days and currency movements.

### Reported profit before tax

Reported profit before tax, which comprises headline profit before tax after reorganisation costs, increased by 16.6%. This increase was above the 7.4% increase in headline profit before tax due to the absence of exceptional items in the year. In the prior year non-recurring reorganisation costs of £7.4 million arose, primarily relating to redundancy charges arising from the implementation of the global organisation structure.

### Taxation

The Group's effective tax rate was 29% of headline profit before tax, 2% points lower than the prior year, primarily reflecting the reduction in the UK corporate tax rate. The effective tax rate on reported profit before tax was 29%. The Group's effective tax rate includes the effect of a significant and continuing increase in the deferred tax liability due to the tax amortisation of overseas goodwill. This deferred tax liability is not expected to crystallise in the foreseeable future. The effective tax rate was higher than the cash tax rate of 24% of headline profit before tax, which is expected to increase going forward as prior-year tax losses are utilised.

During the year the Board reviewed and endorsed the Group's tax strategy. The strategy seeks to ensure that key tax risks are appropriately mitigated, that appropriate taxes are paid in each jurisdiction where the Group operates, and that the

Group's reputation as a responsible taxpayer is safeguarded. We are committed to having a positive relationship with tax authorities, and to dealing with our tax affairs in a straightforward, open and honest manner.

### **Headline earnings per share**

Headline earnings per share of 16.3p increased by 9%. This was slightly above the increase in headline profit before tax, reflecting the decrease in the effective tax rate noted above.

### **Dividend**

The Board is proposing a maintained final dividend of 6.75p per share. This will be paid on 29 July 2014 to shareholders on the register on 27 June 2014. As a result, the total dividend for the financial year will be maintained at 11.75p per share, resulting in headline earnings dividend cover of 1.4 times. The business has significant opportunities to invest for growth at attractive returns and we intend to maintain a strong balance sheet. As previously stated, over time and as earnings increase, the Board intends to pursue a progressive dividend policy whilst increasing headline earnings dividend cover towards two times.

### **Cash flow**

Headline free cash flow for the year of £58.3 million was 4% above the prior-year level, with the increase in headline profit before tax partially offset by increased capital expenditure.

Stock turn improved from 2.5 times to 2.7 times, or 2.6 times on a consistent currency basis. Next year we expect stock turn to be around 2.5 times.

As planned, net capital expenditure increased by £8.2 million from £27.4 million to £35.6 million. All of this growth in capital expenditure arose in the second half, reflecting the commencement of our investment in several strategic initiatives following a period of planning. We invested in a SAP-based business intelligence system and commenced investment in a new enterprise architecture to enable the business to make more system changes, faster. We also continued to roll out a SAP-based IT system across Asia Pacific, the last region to move to this system, with its successful installation in South East Asia and Greater China.

Next year we expect capital expenditure to be around £40 million, consistent with the planned investment in our global strategy. We plan to complete the system investment in Asia Pacific, with Japan being the final market to transition to a new SAP-based IT system. Additional investment will be targeted at our strategic priorities, including a new enterprise architecture, preparation for an upgrade of our web platform, enhanced website functionality and systems to enable a more consistent global offer across RS and Allied.

### **Financial position**

At 31 March 2014 net debt was £143.6 million. This was £16.1 million lower than last year, reflecting positive free cash flow after dividend payments together with currency movements.

Year-end net debt comprised gross borrowings of £144.2 million (currency split: £58.3 million in US Dollars, £58.8 million in Sterling, £23.6 million in Euros and the balance in other currencies) and financial assets of £0.7 million. The currency mix is designed to partially hedge the Group's translation exposures. The peak month-end net borrowing during the year was £175.1 million.

The Group's committed debt finance comprises a syndicated multi-currency facility (currency split: US Dollars \$75 million, Sterling £120 million, Euros €50 million) maturing in November 2015, together with \$150 million of US Private Placement notes (\$65 million with a June 2015 maturity and \$85 million with a June 2017 maturity). Taken together, the Group's committed debt facilities and loans amount to £296.9 million, of which £169.1 million was undrawn as at 31 March 2014.

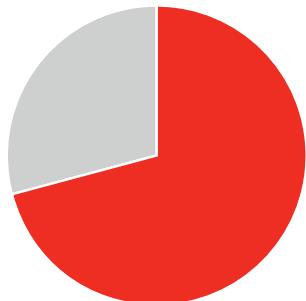
The Group's financial metrics remain strong with net debt to EBITDA of 1.1 times, gearing of 39%, and EBITA interest cover of 24.7 times, with significant headroom to the Group's banking covenants.

### **Pension**

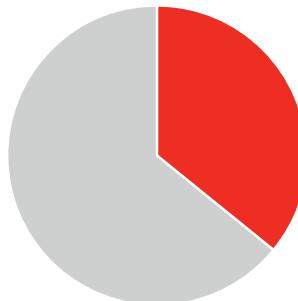
The Group has defined benefit pension schemes in the UK, Ireland and Germany, the largest of which is the UK scheme. All these schemes are closed to new entrants. The German and Irish schemes are closed to accruals for future service.

Under IAS 19R the combined gross deficit of the Group's defined benefit schemes was £40.9 million as at 31 March 2014 (UK deficit: £33.7 million, Germany deficit: £6.2 million, Republic of Ireland deficit: £1.0 million deficit). The UK deficit increased from a deficit of £12.4 million at 31 March 2013, reflecting higher liabilities (due to the use of updated census data for the current triennial valuation and higher life expectancy assumptions) together with actuarial losses due to returns on assets being lower than expected; these factors were only partially offset by a higher discount rate. In order to mitigate the increase in the UK deficit the Company has been consulting with active members of the scheme regarding changes to benefits. These changes involve lowering the cap on the level of salary which is pensionable and increasing member contributions. Members are in the process of making decisions in respect of their future pension provision. The triennial actuarial valuation of the UK defined benefit scheme is currently ongoing and due to complete in summer 2014.

Amendments to IAS 19, which became effective for periods beginning on or after 1 January 2013, have resulted in the use of a lower rate of return on assets and a £4.4 million increase in the 2014 pension charge, which totalled £7.2 million. The prior-year pension charge has also been restated to reflect these amendments (IAS 19R restatement £4.6 million, total pension charge £6.4 million). The £1.2 million increase in the pension charge is mainly due to lower discount rates used to value scheme liabilities.



- 56% eCommerce sales share in 2014
- 15 distribution centres
- 3,100 full-time equivalent employees



- 69% eCommerce sales share in 2014
- 6 distribution centres
- 1,400 full-time equivalent employees

## INTERNATIONAL

	2014	2013	Growth reported	Growth underlying <sup>1</sup>
Sales	£898.8m	£860.5m	4.5%	3.8%
Gross margin	44.1%	44.6%		
Operating costs	£(246.2)m	£(245.7)m	(0.2)%	(0.6)%
Contribution	£150.4m	£137.8m	9.1%	8.8%
Contribution % of sales	16.7%	16.0%		

<sup>1</sup> Adjusted for currency; sales also adjusted for trading days

The International business represents over 70% of Group revenue and comprises three regions: Continental Europe (51% of the International business), North America (31%) and Asia Pacific (18%).

During the year, underlying sales increased by 3.8%. Within International, both Continental Europe and North America grew underlying sales by 4% and underlying sales in Asia Pacific grew by 2%. All of our emerging markets continued to deliver strong sales growth, particularly Eastern Europe and South Africa. International eCommerce sales grew by 10%, more than twice the rate of the overall International business, driven by a strong performance from North America and Continental Europe.

Gross margin reduced by 0.5% points. This was impacted by adverse currency movements, negative product mix (due mainly to Raspberry Pi) and some price repositioning and discounting in certain markets.

Operating costs at constant currency grew by 0.6%, with fixed cost inflation and investment in search engine marketing partially offset by the annualisation of cost efficiencies associated with the prior-year reorganisation and lower stock provisions.

The above combination of sales growth, lower gross margin and increased costs resulted in the International contribution as a percentage of sales increasing by 0.7% points to 16.7%.

## CONTINENTAL EUROPE

	2014	2013	Growth reported	Growth underlying <sup>1</sup>
Sales	£460.6m	£426.2m	8.1%	4.1%
Contribution	£99.4m	£90.9m	9.4%	5.6%
Contribution % of sales	21.6%	21.3%		

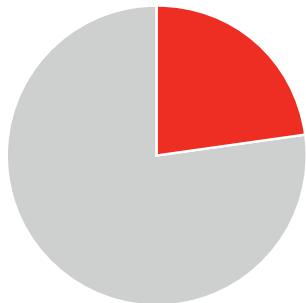
<sup>1</sup> Adjusted for currency; sales also adjusted for trading days

Our business in Continental Europe operates in 15 markets. The largest of these are France, Germany and Italy, which together comprise around 70% of sales in the region. The remaining markets are Austria, Belgium, the Czech Republic, Denmark, Hungary, the Republic of Ireland, the Netherlands, Norway, Poland, Spain, Sweden and Switzerland.

Continental Europe delivered underlying sales growth of 4.1%. All markets in the region contributed to this growth, notably Germany, which benefited from strong sales of Raspberry Pi, and smaller markets such as Spain, Benelux, Scandinavia and Eastern Europe. Regional growth improved as the year progressed, increasing from around 3% in the first half to 5% in the second half. This improvement was partly due to the more favourable PMI backdrop but also reflected good progress implementing in the new global strategy, particularly with regards to the sharing of best practice in sales and marketing to enhance our customer proposition.

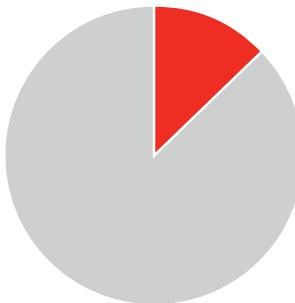
eCommerce has played a key role in the region's success. Continental Europe is the region with the highest eCommerce penetration in the Group, averaging 69% share of sales in the year (compared with 66% in the prior year) and exiting the year at 70%. eCommerce sales grew by 8% in the year, around twice the rate of the region's overall sales, driven by sales of our leading eProcurement solution. This helped the region gain 20 corporate accounts during the year.

The 5.6% increase in underlying contribution reflected positive operating cost leverage and also benefited from the annualisation of the cost efficiencies associated with the prior-year reorganisation and lower stock provisions.



- 39% eCommerce sales share in 2014
- 1 distribution centre
- 700 full-time equivalent employees

■ North America:  
22% of Group sales



- 50% eCommerce sales share in 2014
- 8 distribution centres
- 1,000 full-time equivalent employees

■ Asia Pacific:  
13% of Group sales

## NORTH AMERICA

	2014	2013	Growth reported	Growth underlying <sup>1</sup>
Sales	£281.3m	£268.6m	4.7%	4.2%
Contribution	£39.1m	£34.9m	12.0%	14.3%
Contribution % of sales	13.9%	13.0%		

<sup>1</sup> Adjusted for currency; sales also adjusted for trading days

Allied, our North American business, reported underlying sales growth of 4.2%. Growth rates improved as the year progressed, with the exception of a temporary but significant impact from adverse weather conditions during December and January which prevented many customers from getting to work. The improvement in sales growth rates during the year partly reflected easier comparators, but also reflected a gradual recovery in the electronics market.

Business performance benefited from enhancements to Allied's electronics and automation and control range, with around 42,000 new products added to the range, which is significantly above its usual annual run-rate of 25,000–30,000 products. This reflected the commencement of our strategy to build a more consistent global offer across RS and Allied. During the year we completed this process with our largest electronics supplier TE Connectivity and began the process with other leading global suppliers ON Semiconductor, Omron, Honeywell, Panasonic and Phoenix Contact.

The restoration of full online functionality during the year (following the SAP-based system implementation in the prior year there was a temporary reduction in online functionality) led to a strong recovery in Allied's eCommerce performance, with eCommerce sales growth of 19%. eCommerce sales averaged 39% during the year (compared with 34% in 2013), and this metric has now returned to the 40% level it reached prior to SAP implementation.

The 14.3% increase in underlying contribution reflected positive operating cost leverage partly offset by costs related to the strategy to build a more consistent global offer.

## ASIA PACIFIC

	2014	2013	Growth reported	Growth underlying <sup>1</sup>
Sales	£156.9m	£165.7m	(5.3)%	2.1%
Contribution	£11.9m	£12.0m	(0.8)%	19.8%
Contribution % of sales	7.6%	7.2%		

<sup>1</sup> Adjusted for currency; sales also adjusted for trading days

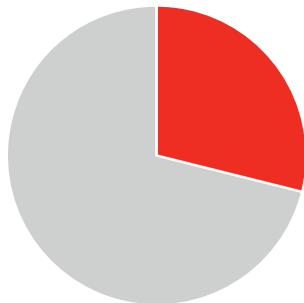
Our Asia Pacific business is the region's market leader and comprises four similarly-sized sub-regions: Australasia, Greater China, Japan and South East Asia.

Underlying sales in the region increased by 2.1% in the year, improving from flat in the first half to 4% growth in the second half. This in-year improvement was principally due to a pick-up in growth rates in Japan and a return to growth in Australasia and South East Asia following a period when both of these markets had been impacted by the slowdown in the resources-related sectors. Greater China remained in growth during the year.

Our Japanese business benefited from improving PMIs, easier comparators and a gradual recovery in the electronics market. However, our Japanese business also improved performance by enhancing its customer offer. This included increased focus on its automation and control range and the targeting of large customer accounts with eProcurement solutions. Across the region 46 corporate accounts were added to the large customer portfolio during the year.

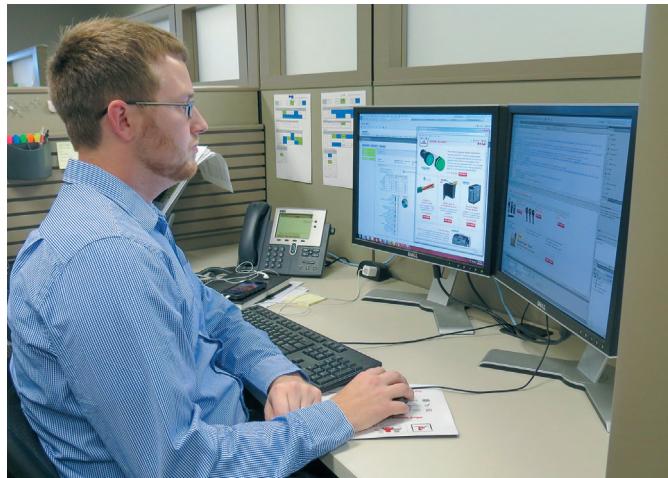
The improvement in sales growth in Japan, which has a high eCommerce sales share of around 75%, contributed to regional eCommerce sales growth of 5% exceeding the overall regional sales growth of 2%. The region's eCommerce sales share improved slightly to 50%.

Asia Pacific's contribution margin improved by 40 basis points to 7.6%, mainly reflecting positive operating cost leverage and lower marketing costs after the prior-year period included set-up costs for the RS Infinity customer loyalty programme.



■ UK is 29%  
of Group sales

- 62% eCommerce sales share in FY14
- 2 distribution centres
- 2,100 full-time equivalent employees



## UK

	2014	2013 as restated <sup>1</sup>	Growth reported	Growth underlying <sup>2</sup>
Sales	£374.3m	£375.1m	(0.2)%	(1.8)%
Gross margin	50.0%	49.3%		
Operating costs	£(79.8)m	£(81.7)m	2.3%	2.3%
Contribution	£107.5m	£103.2m	4.2%	4.2%
Contribution % of sales	28.7%	27.5%		

1. Restated for the changes in IAS 19R Employee Benefits. For further details refer to note 1 on page 102

2. Sales adjusted for trading days

Our UK operation is the largest high service distributor in its market. Against strong comparators the UK business' underlying sales declined by 1.8%, 0.6% excluding sales of Raspberry Pi. There was a slight improvement in sales trends following the pick-up in the UK manufacturing PMI, with UK sales excluding Raspberry Pi flat in the final quarter. However, this improvement was not as significant as we had expected and we have made several senior management changes.

We added 16 corporate accounts during the year but experienced a softening of demand in the latter part of the year from some existing corporate accounts, particularly those in the manufacturing, utilities and defence sectors. eCommerce sales declined by 1%, outperforming the overall UK business, and eCommerce sales share averaged 62%, which was similar to the prior year.

Despite declining sales UK contribution increased by 4.2%, delivering a 120 basis point improvement in the contribution margin to 28.7%. This reflected an increase in gross margin of 0.7% points, due to favourable currency movements, favourable product mix and benefits from our global pricing strategy, together with a 2.3% reduction in operating costs, reflecting the annualisation of cost efficiencies associated with the prior-year reorganisation and lower stock provisions.

## PROCESSES

	2014	2013 as restated <sup>1</sup>	Change reported	Change underlying <sup>2</sup>
Process costs	£(151.8)m	£(141.3)m	(7.4)%	(8.0)%
Costs % of sales	(11.9)%	(11.4)%		

1. Restated for the changes in IAS 19R Employee Benefits. For further details refer to note 1 on page 102

2. Adjusted for currency

The Processes principally comprise our teams that manage our Group-wide marketing, offer and IT activities, together with Group management and head office costs. These Processes have responsibility for the identification, introduction and sourcing of the Group's products, managing supplier relationships, developing the Group's marketing strategy and its implementation, managing the Group's stock and overseeing the Group's worldwide IT infrastructure.

Process costs rose by 8.0% at constant currency, primarily reflecting the impact of fixed cost inflation and a double-digit increase in IT costs and depreciation as we commenced the implementation of our systems strategy to support our medium-term growth ambitions. This included the commencement of a new enterprise architecture to enable our systems to deliver more change, faster. There were enhancements to the search functionality on our websites and we introduced our latest design tool for engineers, DesignSpark Mechanical. This tool provides engineers with free access to an extensive library of 3D models, enabling them to save time and money by bringing new products to market more quickly.

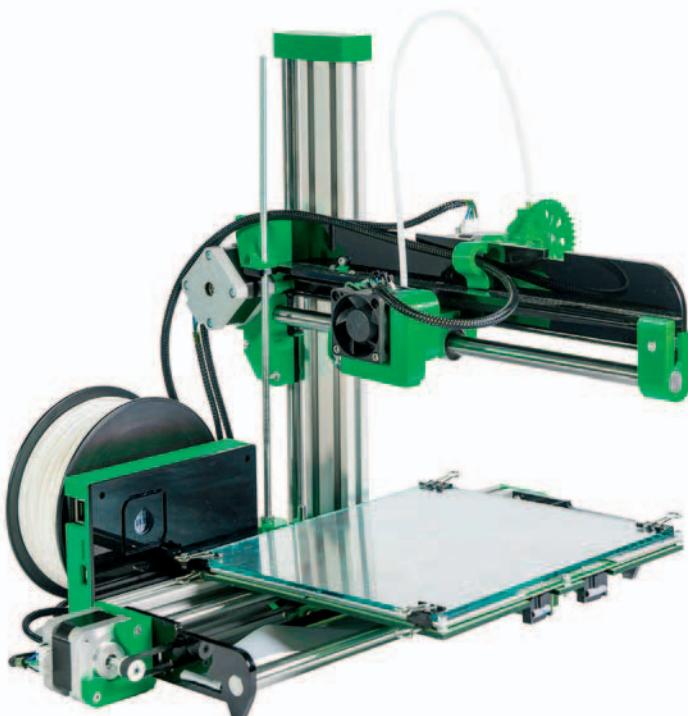


Our One Global Offer strategic priority is focused on building a more consistent global offer across RS and Allied and targeting new product investment on our Famous For products rather than expanding the entire range. Hence the level of new product introduction across RS in the last year, at around 34,000, was below prior-year levels and over three-quarters of the new products were in the Famous For product categories. Allied added around 42,000 new products in the year. This is significantly above Allied's run-rate in recent years, reflecting the addition of products from our RS range from TE Connectivity, Omron, ON Semiconductor, Honeywell, Panasonic and Phoenix Contact, being the first of our major suppliers where we are developing a more consistent global range. There has been increased cost investment accompanying the delivery of this more consistent global offer.

We have strengthened existing partnerships with leading global brands and signed new global agreements during the year with Fairchild Semiconductor, Parralax, Exar, Philips Lumileds and Red Pitaya, whilst our commitment to promoting new and innovative products was enhanced with our distribution agreement with RepRapPro to bring affordable, open-source 3D printing technology to engineers worldwide.

**Ian Mason**  
Group Chief Executive  
22 May 2014

**Simon Boddie**  
Group Finance Director



**Pictured:** The RepRapPro Ormerod, a low-cost 3D printer, launched in December 2013.

# Principal Risks and Uncertainties

## Managing our risks **effectively.**

The Group has well-established risk management and internal control processes for the identification, assessment and management of strategic, operational, financial and compliance risks likely to affect the achievement of the Group's corporate objectives and business performance.

### **The risk management process**

The Board has overall responsibility for the risk management process, with its effectiveness being reviewed annually through the Audit Committee. The Group Executive Committee (GEC) is accountable for the identification and management of risks and their mitigation to the achievement of corporate objectives.

To support the evaluation of the Group's risk management processes, the Board determines a list of material risks to the business for ongoing review. These risks are prioritised on their capacity to materially impact the achievement of strategic objectives, to disrupt business activities or their capacity for significant damage to value.

The Board's review of the material risks requires the responsible management to present its analysis of the risk to the Board, including the mitigating controls and the assessment of the residual risk relative to the inherent risk exposure. The Board will then determine whether it is reassured by the analysis.

### **Risk management responsibilities**

#### **Risk Management and Control Process**



See page **42** for  
**Governance**

The GEC conducts a formal review and assessment of the potential risks to the Group's strategic objectives and operational functions at the start of the financial year. This review prioritises the risks relative to the Group's risk tolerance limits, and allocates responsibility for their management.

The Group applies a common risk assessment approach to the identification, assessment and management of risks. This includes common measures of impact and likelihood, and the requirement to determine whether the residual risks are acceptable given mitigating actions or whether additional actions are required. This approach provides for consistent analysis and reporting of new or developing risks throughout the management line.

All operational businesses complete an annual risk and controls self-assessment. This feeds into the Group's risk profile that is reviewed by the GEC and the Audit Committee as part of the annual risk review. The outputs from the process are factored into the audit plan to focus audit testing on the key controls in the business.

The schematic below presents the high level overview of the risk management and control process.

## Principal risks and uncertainties

The following pages present the principal risks to the achievement of the Group's strategic objectives identified through the process described above.

The following icons depict whether each risk is a new risk, whether it has increased or decreased in significance and/or whether it is a key risk.

### Look out for these icons:



New risk



Key risk



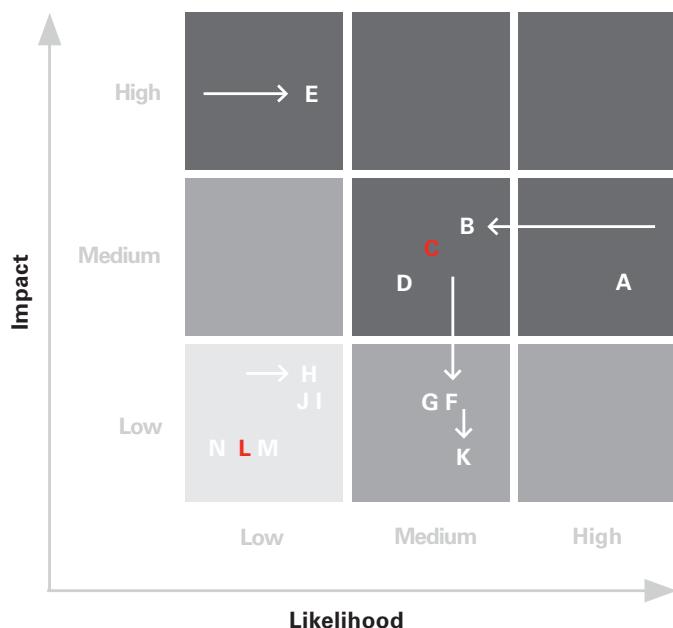
Risk trend



Other

## Major strategic risks

**Electrocomponents Risk Map 2014**



### New risks for FY14: C, L

- A** Delivery of the Group strategy
- B** Macroeconomic conditions
- C** Long-term strategic market shifts
- D** Increasing competition
- E** Customer acquisition
- F** People risks
- G** Product data integrity
- H** Pension cost increases
- I** Effective range management
- J** Key infrastructure dependencies
- K** Foreign exchange rate volatility
- L** Cyber risk threat
- M** Pace of web innovation and development
- N** Breach of regulations leading to prosecution

**RISKS****Delivery of the Group strategy (A)****Impact**

The Group's strategic objectives require close management and co-ordination to be delivered effectively. The risk is that the Group's resources and capabilities may be challenged by the scale and complexity of what is required.

Particular risks include insufficient internal expertise, competition for key resources and unanticipated interdependencies or events disrupting programme delivery.

**Mitigation**

- Clearly defined business objectives and strategic priorities
- Global organisation structure in place to leverage internal business capacity and expertise
- Functional ownership of projects with dedicated project management
- Resourced programme management and project governance function

**Relevant strategic priorities:****Macroeconomic conditions (B)****Impact**

Global economic conditions continue to be uncertain and vulnerable to major shocks such as a further banking crisis or sovereign debt defaults. A worsening of global economic conditions could result in a loss of business confidence exposing the Group's sales and profits.

**Mitigation**

- Strongly cash generative business
- Strong balance sheet
- Significant headroom maintained on banking covenants and facilities
- Tight cost management and control of stock

**Relevant strategic priorities:**

**Long-term strategic market shifts (C)****Impact**

Fundamental shifts in the external environment challenge key assumptions upon which the Group strategy is based. The risk relates to the forward looking analysis of the future environment and the implications of market or structural shifts for the strategy and its delivery.

**Mitigation**

- Strategy function in place to monitor and review challenges to strategic assumptions, e.g. applying scenario analysis to review risks
- Close monitoring of market and technical developments
- Strategic reviews with Board and GEC
- Development of strategic performance measurement metrics to support the review of strategy formulation and delivery

**Relevant strategic priorities:****Customer acquisition (E)****Impact**

The business does not attract sufficient numbers of new customers and is unable to develop new and existing customer behaviour to deliver the sustainable sales growth objectives.

The risk is that order frequency and value does not change as new customers are attracted.

**Mitigation**

- Global customer service campaigns including 'Voice of the customer', and 'Standing in the shoes of the customer' to enhance the customer experience
- Development programmes to influence customer behaviours
- Investment in web and social media to enhance online experience
- Continuing investment in range globalisation and development
- Dynamic pricing strategy

**Relevant strategic priorities:****Increasing competition (D)****Impact**

New and existing competitors close the service gap, offering improved service standards and value propositions. Changes to the competitive landscape challenge the growth assumptions made in the Group's strategy.

The risk is an increase in supply-side options for the customer, with declining barriers to entry and reduced switching costs for customers.

**Mitigation**

- Ongoing review of the competitive environment and developing threats
- Dynamic pricing strategy
- Range globalisation
- Maintaining high service level globally

**Relevant strategic priorities:****People risks (F)****Impact**

The business is unable to attract and retain high performing employees.

The risk is that employees are not fully engaged and supportive of the business strategy, which could undermine productivity and the quality of work done.

**Mitigation**

- Development of existing employee competencies and the introduction of external expertise where appropriate
- Employee appraisal processes to align personal objectives with the Group strategy
- Annual survey of employee engagement
- Employee engagement programmes built around global behaviours to support high performance

**Relevant strategic priorities:**

**Product data integrity (G)****Impact**

The risk is that current information and data structures inhibit the implementation of the globalisation objective and the effectiveness of the wider customer offer.

The risk anticipates increasing market demands for more product related data, faster rates of new product introductions, price changes and provision of comprehensive product information.

**Mitigation**

- Range globalisation and compliance programmes to enhance governance and data management structures
- Strategic content programmes to deliver improvements in product data and content quality
- Enterprise architecture enhancements to address constraints in the processes to manage product data and content

**Relevant strategic priorities:****Effective range management (I)****Impact**

The ongoing development of the range with shortening product life cycles potentially increases the exposure of the business to higher levels of stock obsolescence as well as operational capacity constraints.

The risk is that as the Group progressively implements range globalisation, it will lack the required capabilities to quickly action new product opportunities or address poor product performance in particular markets.

**Mitigation**

- Range globalisation project to drive availability of key vendor ranges across Group markets
- Monitoring and analysis of new product developments to identify high potential products
- Product life cycle performance monitoring
- Continuous improvement programmes to improve operational effectiveness and service efficiencies
- Contractual arrangements with key suppliers on stock purchasing and product buy-back

**Relevant strategic priorities:****Pension cost increases (H)****Impact**

There is an increase in scheme liabilities and a reduction in the value of assets of the UK defined benefit pension scheme.

The risk is that the Company is required to contribute increased cash sums to address the scheme deficit, which increases the costs on the Income Statement.

**Mitigation**

- Quarterly reviews of pension scheme funding position
- Regular interaction with the pension scheme trustees
- Joint Trustee / Company working group to review investment strategy
- Consultation with scheme members of the UK defined benefits scheme involving changes to their benefits. These changes involve lowering the cap on the level of salary which is pensionable and increasing member contributions for the majority of members.

**Relevant strategic priorities:****Key infrastructure dependencies (J)****Impact**

There is a heavy operational dependence on the resilience of warehousing and IT infrastructure to support business operations in a high service environment.

The risk is present that unplanned events could disrupt the functioning of key elements of the operational infrastructure damaging customer service and business reputation.

**Mitigation**

- Highly resilient IT systems infrastructure featuring operational redundancies and off-site disaster recovery provision
- Strict control over upgrades to core systems and other applications
- Largest five warehouse locations all assessed as 'Highly Protected Risk' status
- Business continuity plans in place at operational locations with annual test schedule in place

**Relevant strategic priorities:**

Our Business	Our Performance	Corporate Governance	Financial Statements	Shareholder Information
<div style="background-color: #e0e0e0; padding: 10px;"> <p><b>Foreign exchange rate volatility (K)</b></p>  <p><b>Impact</b> Foreign exchange rate volatility increases uncertainty in business planning, product procurement costs and profit and loss exposures.</p> <p><b>Mitigation</b></p> <ul style="list-style-type: none"> <li>Forward contracts used against planned expenditure</li> <li>Increased purchasing of stock in Euros and US Dollars to mitigate transaction and translation risks</li> <li>Treasury Committee sets agreed risk tolerance levels</li> <li>Compliance against foreign exchange exposure targets reported to Treasury Committee monthly</li> </ul> <p><b>Relevant strategic priorities:</b></p>  </div>	<div style="background-color: #e0e0e0; padding: 10px;"> <p><b>Cyber risk threat (L)</b></p>  <p><b>Impact</b> Risks relating to the integrity, safeguarding and availability of information and IT systems. The main exposures to the Group include the risk of a targeted direct attack on Group systems and data with the potential for loss of confidential information, and an undetected attack using advanced techniques to disrupt the website.</p> <p><b>Mitigation</b></p> <ul style="list-style-type: none"> <li>Anti-virus software to protect business PCs and laptops</li> <li>Procedures to update vendor security patches to servers and clients</li> <li>Software scanning of incoming emails for known viruses</li> <li>Firewalls to protect against malicious attempts to penetrate the business IT environment</li> <li>Control reviews to consider the security implications of IT changes</li> <li>Security reviews with selected third party vendors</li> <li>Computer emergency readiness team (CERT) to track software vulnerabilities relevant to the Group's systems</li> </ul> <p><b>Relevant strategic priorities:</b></p>  </div>	<div style="background-color: #e0e0e0; padding: 10px;"> <p><b>Pace of web innovation and development (M)</b></p> <p><b>Impact</b> The risk is that the business is unable to maintain the pace of innovation in web and digital capabilities relative to the competition. A failure to maintain innovation could erode competitive advantage.</p> <p><b>Mitigation</b></p> <ul style="list-style-type: none"> <li>Implementation of a new web platform with capabilities for faster speed of change</li> <li>Improved search engine visibility</li> <li>Greater web functionality with improved search capability and web presentation across multiple devices</li> <li>'Agile' ways of working to support faster development of our web platform</li> </ul> <p><b>Relevant strategic priorities:</b></p>  </div>	<div style="background-color: #e0e0e0; padding: 10px;"> <p><b>Breach of regulations leading to prosecution (N)</b></p> <p><b>Impact</b> Inadvertent breach of regulations leads to prosecution and significant fines, e.g. by contravention of product compliance regulations, environmental regulations, bribery and corruption, corporate governance.</p> <p><b>Mitigation</b></p> <ul style="list-style-type: none"> <li>Employment of internal specialist expertise, supplemented by external partners as required</li> <li>Ongoing review of relevant national and international compliance requirements</li> <li>Group legal procedures for Group-wide compliance training for senior management leadership team in bribery and corruption and competition law requirements</li> <li>Operational audit reviews of local governance requirements and compliance arrangements</li> </ul> <p><b>Relevant strategic priorities:</b></p>  </div>	

# Corporate Responsibility

Sound corporate responsibility **practices** are integral to our business.

Corporate responsibility (CR) is an integral part of our business and we strive to align our values and strategy with responsible and ethical business policies and practices. We embrace responsibility for the Company's actions and through our activities encourage a positive impact on our environment, consumers, employees, communities and other stakeholders. Our Group Chief Executive is the Director responsible for CR, and the Board of Electrocomponents monitors CR matters across the Group's business operations.

We have identified the following CR risks as having the greatest potential impact on our business and key stakeholders: waste and recycling; packaging and paper; water usage; emissions; health and safety; and employee and community engagement. We address these risks and communicate our performance and progress under the headings: Our Community; Our People; Our Health and Safety; and Our Environment.

Our CR approach is aligned around the themes of engagement and efficiency. These themes are directly linked back to our strategic initiatives of High Performing Team and World Class Systems respectively.

We encourage local initiatives and, where practical, share best practice. The main drivers behind the CR activities are to:

- Support the environmental agenda in order to contribute to cost and operational efficiencies
- Support employee engagement, which has been mainly driven through Our People and Our Health and Safety initiatives
- Ensure that we comply with the relevant legislation and codes

The Group has a policy manual, Our Standards, which sets out the standards of behaviour to which every employee is expected to work and which defines the core values and principles we apply in dealing with our customers, suppliers and other stakeholders. The manual covers gifts, hospitality and donations, fraud, compliance, competition law, whistleblower policy (Speak Up), conflicts of interest and respect for our employees. This year we have updated Our Standards and issued it to our management population across the Group in seven languages; it can be found on our corporate website: <http://www.electrocomponents.com/investor-centre/corporate-governance/code-of-conduct/>

We have a zero tolerance approach to all forms of bribery and corruption. The Anti-Bribery Policy applies to all businesses, Directors and employees within our Group to ensure compliance with all laws and regulations governing bribery and corruption in the countries in which we operate.

Our 2014 key achievements include:

- Our Community: In addition to their time, employees have supported a range of charities, with a fundraising total across the Group of over £240,000.
- Our People: Following the results of the first global employee engagement survey, My Voice, we introduced a global engagement governance structure and developed engagement action plans, which are being implemented at global, functional and local levels. We had an 85% response rate to this year's My Voice survey, which resulted in an increase of 3% in employee engagement levels.
- Our Health and Safety: Performance has continued to see significant improvements, with a 60% reduction in the number of days lost due to accidents from 405 in 2013 to 151 in 2014. For the first time we have been granted the Royal Society for the Prevention of Accidents (RoSPA) Gold Award for ongoing commitment to raising occupational health and safety standards.
- Our Environment: The Group improved its environmental performance in all key areas resulting in reductions of 5.8% in CO<sub>2</sub> intensity, 9.2% in waste intensity, 11.8% in packaging per line ordered and 12.7% in water use per head.

Electrocomponents is a member of the FTSE4Good Index, which measures the performance of companies that meet globally recognised corporate responsibility standards. We have once again secured a place on the Global 100 Most Sustainable Corporations list, published by Corporate Knights in January 2014, ranking us as one of the top overall sustainability performers in our industrial sector.



## Our Community

We actively support engagement with local communities and our employees feel passionately about supporting the local communities they live in. Our approach is to encourage our people to spend time on fundraising activities and take the initiative in supporting local charities.

During 2014, our employees across the world have invested their time and money in raising funds for a wide range of valuable causes, from disaster and cancer charities to community youth projects, the majority of which have been supported at a local level. Most of the fundraising has been employee-led but there have also been monetary and stock donations made from the Company in different markets. Our global fundraising reached over £240,000.

Some key donations include:

**North America:** \$17,929 was donated by employees for United Way, an organisation dedicated to improving education, income and health in communities across the country.

**UK:** An initial donation of £2,450 enabled Lakelands Hospice to organise a series of events, which RS employees participated in, to raise £31,395.



**Pictured:** The RS UK My Community team presenting a cheque to the Lakelands Hospice in Corby, Northamptonshire.

## Working together to aid the Philippines

On 8 November 2013, Typhoon Haiyan struck the Philippines affecting about 9.5 million people across the country. In response to this disaster, RS teams across the world collected end-of-line products to aid the rebuilding of the devastated areas of the Philippines. To date, RS has sourced over £85,000 worth of end-of-line products, such as power tools, protective clothing, fire extinguishers, and batteries. The items were gathered from across the world and our people helped to pick and pack the products.

In addition, employees in Australia and Spain organised events to raise money for the Philippines relief. RS Italy donated 274 hours of their salary to raise money for CARITAS, a charity actively involved in providing aid to the affected people of the Philippines. Donated hours equated to 6,025 Euros; this was matched by the company resulting in a monetary donation of 12,050 Euros.

In South East Asia, the RS team also worked together and raised money to donate to the Philippines relief efforts. Furthermore, many employees were personally affected by the disaster and so donated much of their time helping in many ways to rebuild the devastated areas across the Philippines.



Read more online  
[www.electrocomponents.com](http://www.electrocomponents.com)

## Our People

### My Voice

During this year we have been addressing the concerns raised in our first global employee engagement survey, My Voice, conducted in February 2013. Following analysis of the survey results, a global employee engagement governance structure was established to drive activity across the business.

Globally the business identified six engagement priorities: Career structures; My Career; People Days; Communication; Reward; and Leadership and Management Behaviours and Effectiveness.

Based on the survey results and subsequent workshops, each of our global functions defined the key themes that required action and explored the root causes. They then designed a prioritised action plan to address the concerns of their specific global function. Our global functions are now implementing their plans across their teams.

In February 2014 we conducted a second My Voice survey in 12 languages and had an 85% response rate and an increase of 3% in employee engagement scores. The results of the survey indicate that we are building confidence with the plans in place and actions taken to date.

### Learning and development

We have made some solid progress with our learning and development agenda, including the relaunch of My Career, a development programme, which includes career workshops in local languages and virtual learning opportunities. We want to attract, develop and retain a diverse workforce, as well as drive a culture where people feel able to give their best, and where their views, opinions and talents are respected. Our aim is to embed diversity and inclusion within the business; having a diverse and inclusive organisation plays a key part in enabling us to become a Great Place to Work.

During 2014, we have focused on three main elements:

- **Embedding Inclusive Leadership workshops**

Our Embedding Inclusive Leadership workshops aim to educate our people managers and leaders and help them understand that we all have unconscious bias, which can be seen in recruitment, delegation and promotion decisions. During this year 65% of the global senior management team have participated in the workshops.

- **Reverse mentoring**

Our reverse mentoring programme matches mentors and mentees who are different from each other, e.g. different generations, functions, genders, geographies and nationalities. Both the mentor and mentee challenge their own assumptions about people and learn what life is like for someone who is different from them. About 31% of our global senior management team are now involved as mentors.

- **Monitoring**

We have implemented a new process to monitor how we are performing in key areas, including whether we are attracting, promoting and retaining a good mix of people. Our aim is to have a much clearer picture of diversity across our business.

All of the Group's employment and training policies are compliant with relevant employment legislation and regulatory obligations. Where appropriate, facilities are adapted and retraining offered to any employee who develops a disability during their employment.

### Recruitment

In January of this year we began a partnership with Alexander Mann Solutions (AMS) to manage recruitment for RS globally, excluding Japan, South Africa and Chile. The new partnership will give us a consistent recruitment process across much of the business, improved metrics and the benefit of AMS' extensive experience in sourcing a diverse pool of candidates.

### Employee communication

The Group communicates business performance and key developments in a variety of ways; two-way communication is actively promoted. The Executive Directors present the Group results to all employees. The Group has many consultation forums, with trade unions, works councils and other employee groups involved where appropriate.

### Human rights

Our respect for human rights is implicit in our employment practices; the rights of every employee are respected and every employee is treated with dignity and consideration. Our employment practices are designed to attract, retain, motivate and train people and to respect their rights. We do not use child labour (in line with Minimum Age Convention), nor do we use forced labour. We recognise freedom of association by permitting our employees to establish and join organisations of their own choosing without our permission, and we recognise collective bargaining where required by local laws.

### Gender diversity across our business





## Our Health and Safety

We recognise health and safety as key for the continued economic success and sustainable future of the business. Our core objective is to achieve long-term cultural change, promoting good practice and behaviours amongst our employees. With 17 distribution centres across the world, accident prevention is a priority.

Key achievements this year have been:

- A significant year-on-year reduction in the Lost Time Accident rate (number of lost time accidents per 200,000 hours worked) from 0.60 in 2013 to 0.42 in 2014. This rate was over 1.0 as recently as 2011.
- The number of lost time accidents has dropped 30% from 37 in 2013 to 26 in 2014. This shows a reduction of 65% over the last three years.
- A 60% reduction in the number of days lost due to accidents from 405 in 2013 to 151 in 2014.
- There were 8,247 near misses reported in 2014, compared with 4,421 in 2013, demonstrating an improvement in employee awareness and reporting.

The total number of recorded accidents has increased slightly this year, from 532 in 2013 to 547 in 2014. This is due in part to recording a greater variety of accidents, which now include minor, lost time and road traffic accidents. It is also due to the introduction of 'Our Performance across Operations', an initiative to encourage proactive reporting throughout our warehouses.

Health and safety has for the last two years been the highest scoring section of the global employee engagement survey. We continue to use behavioural safety as a key tool to change and adapt our employees' attitudes and approach to health and safety.

In 2014, the second year of our five year health and safety strategy, our key areas of focus have been:

- Professional advice and support: a network of health and safety professionals and forums within the business able to support the local teams with advice and guidance.
- Senior management support: several members of the GEC chair regional health and safety forums, taking the lead to role model support for health and safety.
- Training: all employees have attended behavioural safety training and, where necessary, high levels of vocational training are also provided in the form of first aid, mechanical handling equipment operator training, fire safety and manual handling.
- Learning and communication: learning from events and taking a proactive preventative approach with actions logged and tracked at a global level and communicated to the business.
- Risk management: all areas of the business are required to have an established risk management structure, supported by safety improvement plans, which allows proactive planning and budgeting.

In recognition of our health and safety success over this year, we have been granted the Society for the Prevention of Accidents (RoSPA) Gold Award for Occupational Health and Safety, demonstrating an upward trend from Silver last year and Bronze the year before. We have also received a distinction in the British Safety Council's International Safety Awards 2014, having scored 60 out of 60 for our commitment to the health, safety and well-being of our people.

## Our Environment

The Electrocomponents environmental policy commits the Group to identifying and managing the environmental impacts associated with its business activities, with the objective of increasing efficiency and reducing the Group's environmental impacts per unit of sales.

Environmental performance is managed through a Group-wide reporting and measurement process. The scope and completeness of the process has been an important factor in the Group's recognition by the Corporate Knights Global 100 list of sustainable corporations, for eight out of the last ten years.

From this year we report environmental performance on a financial year (FY) basis rather than by calendar year (CY). This is now in line with Group financial reporting and the FY and CY reports are comparable as they both cover a 12 month period.

### Energy consumption and carbon emissions

Emissions	Total Emissions CO <sub>2</sub> e (Tonnes)				Energy Intensity (Tonnes CO <sub>2</sub> /£m sales)			
	FY2014	CY2012	CY2011	CY2010	FY2014	CY2012	CY2011	CY2010
CO <sub>2</sub> e due to premises energy use <sup>1,2,3</sup>	<b>18,636</b>	19,314	18,947	21,524	<b>14.7</b>	15.6	15.1	18.9

1. CO<sub>2</sub> equivalent from all energy sources including country specific CO<sub>2</sub> factors for electricity and with 100% renewable electricity reported at zero kg CO<sub>2</sub> per kWh.

2. Excludes a number of smaller premises where energy costs and consumption are included in lease costs.

3. KPIs are on a constant currency basis and updated to reflect changes in reporting methodology and in emissions factors.

Our primary direct energy usage and related CO<sub>2</sub> emissions is in our premises and operational infrastructure and as sales increase, our energy efficiency will improve. Energy reductions and the use of green energy also help reduce emissions. As most energy use is related to heating and cooling, our energy related performance is subject to the effects of climatic variations. We work closely with our transport providers to manage the cost and efficiency of our third party transport arrangements.

CO<sub>2</sub>e emissions, due to energy use in our premises, were reduced by 3.5% in FY2014. Taking into account the growth in sales between the two 12-month periods, CO<sub>2</sub>e emissions intensity was down 5.8% in FY2014. The most significant emissions reductions were achieved in the UK where a combination of energy saving measures and lower use for space heating reduced emissions by over 350 tonnes and in Germany where a change to 100% renewable electricity reduced reported emissions by some 300 tonnes.

Efficiency improvements are ongoing across our facilities, including investment in energy efficient lighting systems and the installation of LED and fluorescent tube lighting linked to movement sensors to replace older, less efficient lighting systems. Following the installation of energy management systems across the UK, plans are underway to extend this technology to principal sites in Europe. This will enable the more efficient control of heating and air conditioning systems, reducing energy consumption, CO<sub>2</sub> emissions and costs, and providing real time information on energy usage.

The Group has participated in the Carbon Disclosure Project since 2008 and in the 2013 CDP FTSE 350 Report was rated as joint top in its reporting category, achieving its highest disclosure and performance scores to date.

### Waste and recycling

Waste	Total Waste (Tonnes)				Waste Intensity (Tonnes/£m sales)			
	FY2014	CY2012	CY2011	CY2010	FY2014	CY2012	CY2011	CY2010
Total waste <sup>1</sup>	<b>2,910</b>	3,129	3,488	3,201	<b>2.29</b>	2.53	2.78	2.81

Recycling	Total Waste (Tonnes)				Waste Intensity (Tonnes/£m sales)			
	FY2014	CY2012	CY2011	CY2010	FY2014	CY2012	CY2011	CY2010
Total waste recycled <sup>1</sup>	<b>2,307</b>	2,461	2,596	2,283	<b>79%</b>	79%	74%	71%

1. KPIs are on a constant currency basis and updated to reflect changes in reporting methodology, and including hazardous and non-hazardous waste.

Our primary waste streams include card, paper, wood and plastics, much of which is recycled, and general commercial waste from our operations. Waste intensity was down by 9.2% in FY2014. In absolute terms, waste tonnage was reduced by 7% in FY2014. The proportion of total waste recycled was constant in the year at 79% despite the reduction in total waste.

Waste reduction initiatives at sites across the Group are ongoing. These include the proactive reduction and management of waste streams with waste recycled or diverted from landfill to incineration and energy recovery where possible. For example, in the UK total waste is down by 27% since CY2010 with waste to landfill reduced from 30% of the total in CY2010 to 3% in FY2014. Over the same period the proportion of total waste recycled is up from 69% to 79% with an additional 16% of total waste being diverted to energy recovery/incineration. The use of reusable replenishment transit packaging, and the inclusion of supplier contractual clauses for the buyback of surplus and obsolete products has helped to reduce waste quantities.

A free lamp collection and recycling initiative for UK customers was recognised in the Lux Awards 2013 with a 'highly commended' honour. The service collected and recycled over 10 tonnes of redundant lamps. Our UK team also developed an

innovative project, comprising a new LED unit and a revolutionary service model, that encourages the purchase of energy-efficient lighting whilst also eradicating all waste at the end of the product's life. This project won the 'Environment Product/Service Award' at the Environment and Energy Awards 2014 and will be rolled out across the Group over the next three years.

### Packaging and paper

	Packaging (Tonnes)				Packaging per Line Ordered (kg/£m ordered)			
	FY2014	CY2012	CY2011	CY2010	FY2014	CY2012	CY2011	CY2010
Packaging consumed	4,672	5,473	5,497	4,959	0.21	0.24	0.24	0.23

Packaging consumption was reduced by 14.6% and packaging use per line ordered was down by 11.8% in FY2014. The main improvements in packaging use were in North America and in the UK, where the adoption of double wall cardboard in place of tri-wall reduced packaging use per line ordered. We continue to review our packaging and to train packaging teams on the importance of the efficient use of materials in preparing customer orders whilst ensuring the effective protection of customer orders when in transit. The packaging report is also influenced by the timing of packaging purchases and supplier deliveries.

We work closely with our pulp and paper suppliers and printers to reduce the carbon footprint of our catalogue which is now reprinted every two years. The pulp for the catalogues is sourced from either Sustainable Forestry Initiative or PEFC accredited forest management schemes, with printing carried out in ISO 14001:2004 certificated facilities.

### Water consumption

	Water Use (m³)				Water Use Per Employees (m³/head)			
	FY2014	CY2012	CY2011	CY2010	FY2014	CY2012	CY2011	CY2010
Total water use	47,511	54,055	53,936	48,745	7.6	8.8	8.9	9.0

Water is used primarily for domestic and office uses, with performance assessed on the basis of consumption per employee. Use is also influenced by the testing and maintenance of fire protection systems and irrigation requirements. Water conservation measures include awareness campaigns and proactive maintenance regimes to prevent or rectify leakage.

Water use per employee was down by 12.7% and absolute water use was reduced by 12.1% in FY2014. Specific water saving initiatives at sites in France, Australia and the UK helped to drive the improved performance in FY2014.

### Greenhouse gas emissions disclosures

In addition to the CO<sub>2</sub>e emissions due to premises energy use, which are reported on page 38, the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 requires the Group to also report emissions due to the fuel used in company vehicles, fugitive emissions and other sources. The report below includes the material emission sources from the operations and activities covered by the Group's financial statements.

	FY2014 Tonnes CO <sub>2</sub> e
<b>Emissions from combustion of fuels and operation of facilities:</b>	
Combustion of fossil fuels*	6,116
Operation of facilities, including fugitive emissions#	89
<b>Electricity purchased for own consumption:</b>	
Purchased electricity†	14,847
<b>Intensity measurement</b>	
CO <sub>2</sub> e due to premises energy use per £m revenue	14.7
Total GHGs per £m revenue	16.6

Data is for the financial year as updated to reflect changes in reporting methodology.

\* Includes emissions of 2,326 tonnes relating to fuel use in company vehicles.

# 89 tonnes of CO<sub>2</sub>e due to fugitive emissions from air conditioning systems.

† Electricity from renewable sources at zero CO<sub>2</sub>e per kWh. Emissions increase by 913 tonnes at grid-average rates.

The Group uses the Greenhouse Gas Protocol with emission factors for standard grid electricity by country from the International Energy Agency and other factors as published by the UK Department of Environment, Food and Rural Affairs in order to calculate the CO<sub>2</sub>e emissions included in this report.

The Strategic Report was approved by the Board on 22 May 2014.

By order of the Board

**Ian Mason**

Group Chief Executive

**Strategy in Action**

# Helping our customers bring products to market more rapidly

## DesignSpark Mechanical achieves record downloads



### DesignSpark, our online design community, provides engineers worldwide with trusted and reliable technical information and resources.

Boasting around 250,000 users since its launch in 2010, DesignSpark allows engineers to connect with partners, exchange ideas and contribute reviews. Its popularity lies in its ability to help engineers to do their jobs more easily.

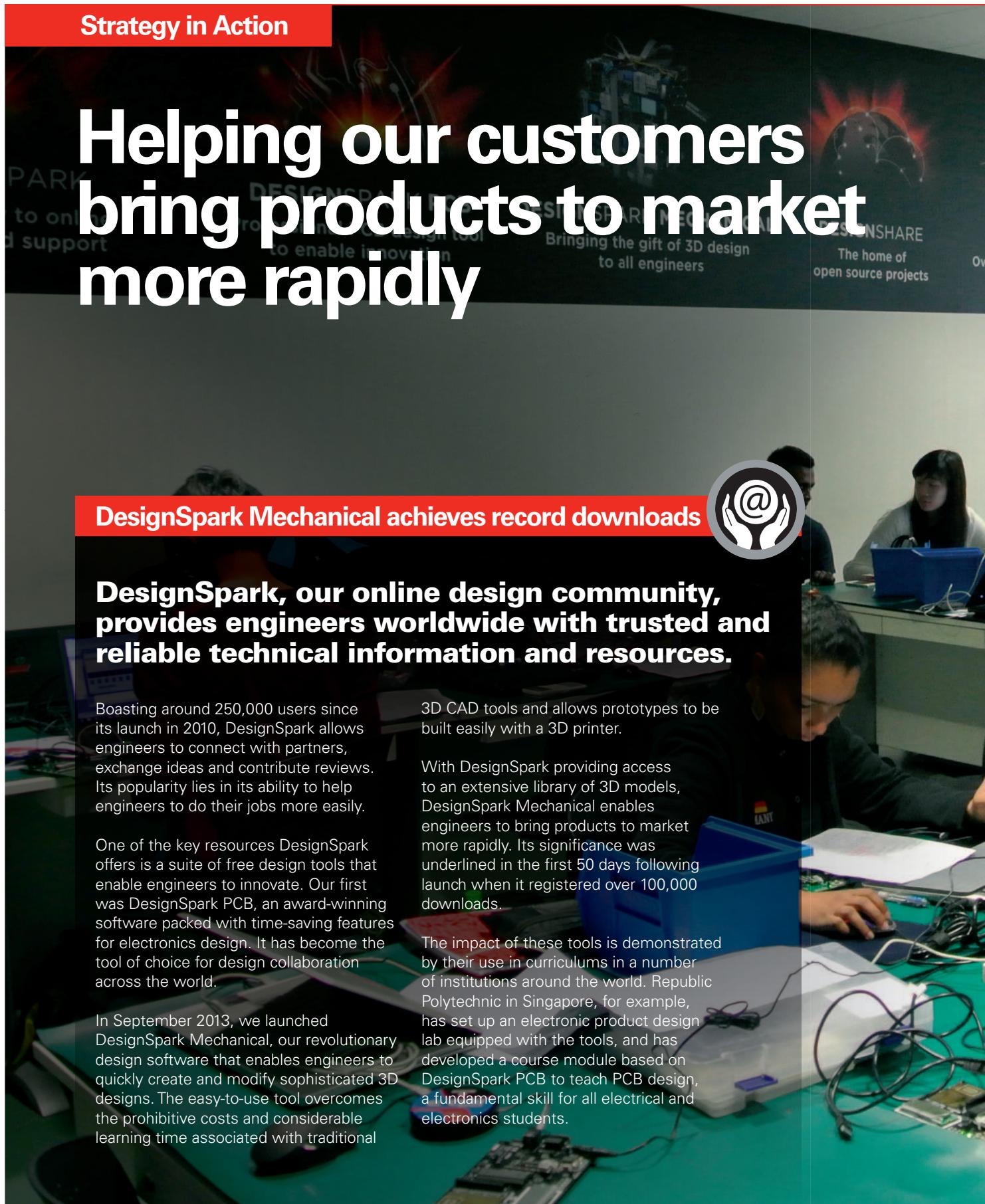
One of the key resources DesignSpark offers is a suite of free design tools that enable engineers to innovate. Our first was DesignSpark PCB, an award-winning software packed with time-saving features for electronics design. It has become the tool of choice for design collaboration across the world.

In September 2013, we launched DesignSpark Mechanical, our revolutionary design software that enables engineers to quickly create and modify sophisticated 3D designs. The easy-to-use tool overcomes the prohibitive costs and considerable learning time associated with traditional

3D CAD tools and allows prototypes to be built easily with a 3D printer.

With DesignSpark providing access to an extensive library of 3D models, DesignSpark Mechanical enables engineers to bring products to market more rapidly. Its significance was underlined in the first 50 days following launch when it registered over 100,000 downloads.

The impact of these tools is demonstrated by their use in curriculums in a number of institutions around the world. Republic Polytechnic in Singapore, for example, has set up an electronic product design lab equipped with the tools, and has developed a course module based on DesignSpark PCB to teach PCB design, a fundamental skill for all electrical and electronics students.





Pictured: The electronic product design lab at Republic Polytechnic in Singapore.

# Board of Directors

**Peter Johnson****Chairman**

Joined in October 2010

**External roles**

During the year Peter was appointed Vice-Chairman of the Supervisory Board of Wienerberger AG, having been a Member for a number of years.

**Past roles**

Previously, Peter was Chairman of DS Smith plc, a Non-Executive Director of SSL International plc, Chief Executive of George Wimpey plc and Chief Executive of The Rugby Group plc.

**Skills and experience**

- International operations
- Emerging markets
- Mergers and acquisitions
- Distribution
- Sales and marketing
- Manufacturing
- Service industry
- Chairman
- Chief Executive Officer

**Committee membership**

Chairman of the Nomination Committee.

**Ian Mason****Group Chief Executive**

Joined the Board in July 2000

**External roles**

None

**Past roles**

Ian joined the Group from The Boston Consulting Group in February 1995 as Director of Business Development and was appointed to the Board of Directors in July 2000 as Chief Operating Officer. He became Group Chief Executive in July 2001. He was a Non-Executive Director at Sage Group plc from November 2007 until November 2013.

**Skills and experience**

- International operations
- eCommerce
- Distribution
- Manufacturing
- Service industry
- Chief Executive Officer

**Committee membership**

Chairman of the Group Executive Committee and Member of the Treasury Committee.

**Simon Boddie****Group Finance Director**

Joined in September 2005

**External roles**

Simon is a Non-Executive Director of PageGroup and Chairman of its Audit Committee.

**Past roles**

Previously, Simon worked for Diageo plc where he held a variety of senior finance positions, latterly as Finance Director of Key Markets.

**Skills and experience**

- International operations
- Emerging markets
- Recent financial experience
- Distribution
- Manufacturing
- Service industry

**Committee membership**

Chairman of the Treasury Committee and Member of the Group Executive Committee.



**Rupert Soames**  
**Senior Independent Director**  
Joined in July 2007

#### External roles

Rupert was recently appointed as Group Chief Executive at Serco Group plc.

#### Past roles

Up to April of this year, Rupert was Group Chief Executive of Aggreko plc. Previously, he was Chief Executive of the Banking and Securities Division of Misys plc and a Non-Executive Director of Baggeridge Brick plc.

#### Skills and experience

- International operations
- Emerging markets
- Digital
- Manufacturing
- Service industry
- Chief Executive Officer

#### Committee membership

Chairman of the Remuneration Committee. Member of the Nomination and Audit Committees.



**Paul Hollingworth**  
**Independent Non-Executive Director**  
Joined in May 2008

#### External roles

None

#### Past roles

Previously, Paul was Group Chief Financial Officer of Thomas Cook Group plc and prior to that he was Chief Financial Officer of Mondi Group. He has also held positions as Group Finance Director of BPB plc, De La Rue plc and Ransomes plc.

#### Skills and experience

- International operations
- Emerging markets
- Recent financial experience
- Mergers and acquisitions
- Corporate law and governance
- Manufacturing
- Service industry

#### Committee membership

Chairman of the Audit Committee. Member of the Nomination and Remuneration Committees.



**Adrian Auer**  
**Independent Non-Executive Director**  
Joined in July 2009

Adrian will be standing down as a Non-Executive Director at the end of June.

#### External roles

Adrian is Chairman of Shanks Group plc and a Non-Executive Director of AZ Electronic Materials S.A. He is also Chairman of Addiction, Britain's largest specialist drug and alcohol treatment charity.

#### Past roles

Previously, Adrian has held the position of Finance Director in a number of major companies and has extensive international business experience.

#### Skills and experience

- International operations
- Emerging markets
- Sales and marketing
- Supply chain and logistics
- Finance
- Distribution
- Digital
- Mergers and acquisitions
- Management consultancy
- Manufacturing
- Service industry
- Chairman
- Chief Executive Officer

#### Committee membership

Member of the Audit, Nomination and Remuneration Committees.

**Karen Guerra****Independent Non-Executive Director**

Joined in January 2013

**External roles**

Karen is a Non-Executive Director of Amcor Limited, Swedish Match AB and Davide Campari-Milano S.p.A.

**Past roles**

Previously, Karen was a Non-Executive Director at Inchcape plc, More Group plc and Samlerhuset Group BV. She has also held senior executive positions at Colgate-Palmolive, including Managing Director and Chairman of both their UK and French businesses.

**Skills and experience**

- International operations
- Sales and marketing
- Manufacturing
- Service industry

**Committee membership**

Member of the Audit, Nomination and Remuneration Committees.

**John Pattullo****Independent Non-Executive Director**

Joined in January 2013

**External roles**

During the year John became Chairman of NHS Blood and Transplant and Non-Executive Chairman of Marken Group.

**Past roles**

John recently retired from the Board of CEVA Group plc but continues to be a Special Advisor, having previously served as Chief Executive Officer of CEVA Logistics. Previously, he was Chief Executive Officer of the Europe, Middle East and Africa division of Exel and when Exel was acquired by Deutsche Post/DHL he went on to run the combined Exel and DHL contract logistics business in EMEA. He spent most of his early career working in supply chain management roles with Procter & Gamble.

**Skills and experience**

- International operations
- Emerging markets
- Supply chain and logistics
- Manufacturing
- Service industry
- Chief Executive Officer

**Committee membership**

Member of the Audit, Nomination and Remuneration Committees.

**Ian Haslegrave****General Counsel and Company Secretary**

Joined in September 2006

**External roles**

None

**Past roles**

Previously, Ian was International Legal Director at Viacom Outdoor Limited. He has also worked at United Biscuits Limited and Freshfields Bruckhaus Deringer.

**Skills and experience**

- International operations
- Mergers and acquisitions
- Corporate law and governance
- Risk management
- Manufacturing
- Service industry

**Committee membership**

Member of the Treasury Committee.

# Directors' Report

The Directors present their report and the audited financial statements of Electrocomponents plc (Company) together with its subsidiary undertakings (Group) for the period to 31 March 2014.

**A summary of the disclosures required to be made in, and incorporated into, this Directors' Report is given below:**

	Page Numbers:
Likely future developments <sup>1</sup>	18
Policy on disability <sup>1</sup>	36
Employee engagement <sup>1</sup>	36
Greenhouse gas emissions <sup>1</sup>	39
Names and biographies of Directors who served during the year	42
Directors' indemnities	46
Results and dividends	46
Share Capital and acquisition of own shares	46
Directors' disclosures of information to Auditors in respect of the audit	47
Appointment and replacement of Directors	89
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Powers of Directors	89
Share capital and shareholder rights:	
– Substantial shareholders	46
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Principal subsidiary and associated undertakings and branches	120
Financial risk management (including hedging)	123

1. Information required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and included in the Strategic Report

**Results and dividends**

Results for the year are set out in the Group income statement on page 96. An analysis of revenue, profit and net assets by region is shown in Note 3 on page 104. The Directors have declared dividends as follows:

**Ordinary shares**

Paid interim dividend of 5p per share (paid on 10 January 2014)	2013: 5p per share
Proposed final dividend of 6.75p per share (to be paid on 29 July 2014)	2013: 6.75p per share
Total ordinary dividend of 11.75p per share for year ended 31 March 2014	2013: 11.75p per share

**Share capital**

Full details of share options and awards and shares issued under the terms of the Company's share incentive plans can be found in Note 7 to the accounts on page 107.

As at 31 March 2014, the Company's issued share capital comprised a single class of 439,586,456 ordinary shares of 10p each, totalling £43,958,645.60.

The Company was authorised by shareholders at the Annual General Meeting (AGM) held on 17 July 2013 to purchase up to 10% of its ordinary share capital in the market. This authority will expire at the end of the 2014 AGM and the Company is proposing a resolution to renew it for another year.

**Directors' indemnities**

In accordance with the Company's Articles of Association, the Company entered into a deed in 2007 to indemnify the Directors and Officers (from time to time) of the Company to the extent permitted by law. A copy of this indemnity (which remains in force as of the date on which this report was approved) is available at the registered office of the Company.

The Company purchased and maintained Directors' and Officers' liability insurance throughout 2013, which was renewed for 2014.

Neither the indemnity nor insurance provide cover in the event that a Director or Officer is proved to have acted fraudulently.

**Financial instruments**

For information on the Group's use of financial instruments, including financial risk management objectives and policies of the Group, and exposure of the Group to certain financial risks, see Note 21 on page 123.

**Political contributions**

The Group made no political contributions during the year.

**Annual General Meeting**

The Notice of the AGM, which will be held at 12 noon on Thursday, 24 July 2014 at the Company's premises, The International Management Centre, 8050 Oxford Business Park North, Oxford, OX4 2HW, is set out in a separate circular.

**Substantial shareholders**

As at 21 May 2014, the Company has been notified, in accordance with the FCA Disclosure and Transparency Rules, of the following interests in the voting rights of the Company:

	Nature of interest	Number of shares	Percentage held
Silchester International Investors LLP	Direct	83,089,855	19.05%
Sprucegrove Investment Management	Direct	33,046,296	7.58%
Ameriprise Financial, Inc. and its group	Direct and Indirect	22,383,083	5.11%
Majedie Asset Management Ltd	Indirect	21,819,825	4.96%
Sanderson Asset Management Ltd	Direct	18,240,445	4.18%

**Disclosure of information to Auditors**

The Directors who held office at the date of approval of this Directors' report each confirm that, so far as they are aware, there is no relevant audit information of which the Auditors are unaware; and each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Auditors are aware of that information.

**Conflicts of interest**

The Company's Articles of Association give the Board the power to authorise situations that might give rise to Directors' conflicts of interest. The Board has in place a formal conflicts of interest management procedure. The Board is responsible for considering whether authorisation is required, and if it can be given, in relation to new situations as they arise. The Board reviews annually any conflict authorisations it has given and any limitations that have been applied.

**Company number**

Registered Number: 647788.

# Corporate Governance Report



**"We are mindful of the need to meet the ever-changing demands of the business environment, whilst at the same time ensuring that our various stakeholders are all given appropriate consideration"**

## Dear fellow shareholder

As a UK listed company, we are required to explain how we have applied the main principles set out in the UK Corporate Governance Code (Code) and whether the relevant provisions have been complied with throughout the financial year. The following report sets out how we have applied the Code and confirms our compliance.

The Company and the Group are committed to high standards of corporate governance and the Board is accountable to the Company's shareholders and actively engages in two-way communication with them. During the year we held numerous face-to-face meetings, hosted site visits and invited them to presentations on both the Group's financial results and elements of its strategy.

We are mindful of the need to meet the ever-changing demands of the business environment, whilst at the same time ensuring that our various stakeholders are all given appropriate consideration. This has been a challenge that our Board continues to take very seriously.

Our two new Non-Executive Directors, Karen Guerra and John Pattullo have now settled in well with the Board and bring a fresh new perspective with their international backgrounds in marketing and supply chain management respectively.

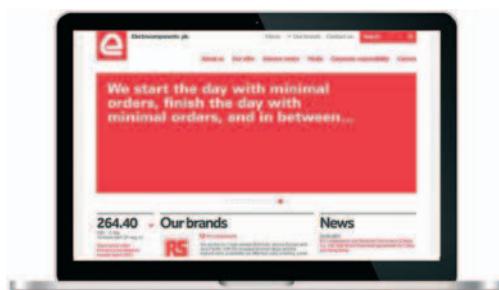
For the first time this year we have conducted an externally facilitated board evaluation. This proved highly effective and resulted in a number of recommendations which are discussed in detail later in this report.

Executive remuneration has been a topic of considerable interest again over the year with the new regulations coming into play for the first time. The Directors' Remuneration Report on page 67 sets out in detail the Company's approach.

## Peter Johnson

Chairman

22 May 2014



## Corporate Website

Further details on the roles and responsibilities of each of the committees of the Board are available on our website.



Read more online at

**www.electrocomponents.com**

## Shareholders

### Board of Directors

Chairman, two Executive Directors, five Non-Executive Directors and Company Secretary and General Counsel.

#### Audit Committee

- Financial Reporting
- External Audit
- Risk Management and Internal Controls including Internal Audit
- Whistleblowing, Fraud and Anti-bribery



See page **58** for the  
**Audit Committee Report**

#### Remuneration Committee

- Chairman and Executive Director Pay
- Senior Executive Pay
- Share Incentive Plans



See page **67** for the  
**Directors' Remuneration Report**

#### Nomination Committee

- Board Structure
- Board Appointments
- Board Succession Plans



See page **65** for the  
**Nomination Committee Report**

#### Group Executive Committee

- Develop Strategy
- Execute Strategy
- Operational and Financial Performance
- Financial Performance Monitoring Strategic and Forecasting Processes
- Investment Proposals
- Develop Risk Management Processes
- Employee Development and Engagement

### BOARD COMPOSITION

Executive

**25%**



Non-Executive

**75%**



Male

**87.5%**



Female

**12.5%**



See page **52** for information on  
Board role, effectiveness and composition

### BOARD TENURE

0-3 years

**25%**



3-6 years

**25%**



6 years and over

**50%**



### INTERNATIONAL EXPERIENCE

Percentage of Directors with international experience gained outside the Group

Europe

**100%**

Americas

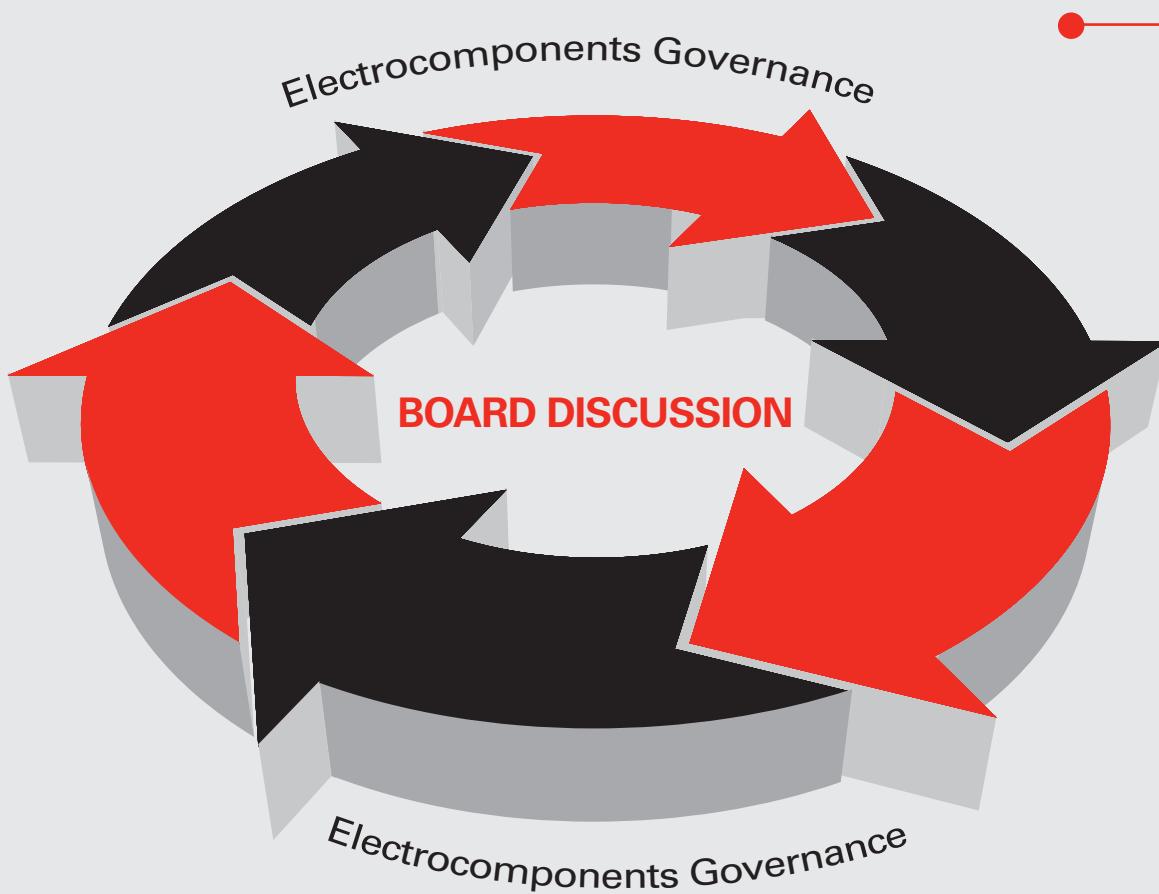
**100%**

ROW

**100%**

**Board Activity**

**"The Company and the Group are committed to high standards of corporate governance and the Board is accountable to the Company's shareholders and actively engages in two-way communication"**



See page **52** for information on  
**Board role, effectiveness  
and composition**

## **Strategy**

The Board began the year with reviews of the Company's Business Planning processes, and scoped its programme of strategic implementation reviews. Over the year it has received detailed updates on the seven strategic priorities, culminating in a strategy away day in January during which it had a review of the Group's customers and competitors, an update on the progress made in the year on implementing the Group's strategy and agreed the strategic implementation plan for the following year. On an ongoing basis it tracks progress against the strategic KPIs and approves strategic investment proposals, such as the roll-out of SAP in Asia Pacific. It also received reviews of previous strategic investment proposals considering whether they delivered their anticipated benefits and shared any learnings from the relevant projects.

## **Financial reporting**

The Board reviewed and signed off on the 2013 Annual Report and Accounts and the Half-year financial report for the following half year, including discussion and approval of the relevant final and interim dividends. The Board receives monthly updates on the financial performance of the Group, approves the annual budget, the strategic five year plan and the reforecasts during the year. In December, the Board approved a refresh of the overall tax strategy for the Group, which is carried out on a biannual basis, and has reviewed the ongoing bank financing programme.

## **Shareholder relations**

The Board engaged with smaller shareholders at the 2013 AGM held in July, and during the year the Executive Directors held around 70 meetings and conference calls with institutional shareholders in the United Kingdom, North America and Europe. The Board regularly reviews reports that contain investor feedback from institutional investors, compiled by the Company's brokers. In July the Board, with support from the Company's brokers, conducted an in-depth review of the existing investor relations programme and strategy. This included a detailed review of investor feedback and perceptions, a review of the shape of the existing shareholder register and plans to attract new investors to the Company's investment case.

## **Governance**

The Board undertook an externally facilitated evaluation of its own effectiveness and that of its committees and individual members during the year. It considered updates on a number of areas including competition policy and anti-bribery training, and reviewed the Group's whistleblowing procedures. The Board also considered its position on corporate responsibility. On a quarterly basis the Board considers Group health and safety and receives reports on any grievances raised across the Group together with a summary of the themes arising from the whistleblowing process (Speak Up).

## **Risk management**

During the year the Board has undertaken its annual full Group Risk Review, and has also considered more specific and detailed risk reviews of the Nuneaton and Bad Hersfeld warehouses. Directors have undertaken training on defence of a takeover bid. The Board has considered and approved an investment proposal for updated disaster recovery arrangements in its North American business, and has been updated on the ever changing nature of cyber risk. Looking forward, the Board has agreed a register of inherent Group Major Risks for ongoing review.

**UK Corporate Governance Code**

During the year ended 31 March 2014, the Company has been subject to the provisions of the Code published in September 2012. The Code is publicly available at [www.frc.org.uk](http://www.frc.org.uk). There are five main principles of the Code covering:

- Leadership
- Effectiveness
- Relations with shareholders
- Accountability
- Remuneration

The sections within this Directors' Report explain how the above principles have been applied. The information required by the Code on Directors' accountability, our process for the appointment of Directors (including diversity) and our report on Directors' remuneration, can be found in the following sections:

- Audit Committee Report on page 58;
- Nomination Committee Report on page 65; and
- Directors' Remuneration Report on page 67.

During the year ended 31 March 2014, the Directors consider that the Company complied throughout the accounting period with all the relevant provisions set out in the Code.

**The Board****Role, effectiveness and composition**

The Board is collectively responsible for promoting the long-term success of the Company. The Board has carefully considered the guidance criteria regarding the composition of the Board under the Code. In the opinion of the Board, the Chairman and all the Non-Executive Directors bring independence of judgement and character, a wealth of experience and knowledge, the appropriate balance of skills, and assign sufficient time to enable them to effectively carry out their responsibilities and duties to the Board and to the committees on which they sit. They are sufficiently independent of management and are free from any other circumstances or relationships that could interfere with the exercise of their judgement.

Biographical details of the Directors at the date of this report are set out on pages 42 to 44. These set out their skills and experience, together with details of their membership of Board Committees. Details of the Board's composition, tenure and international experience are given on page 49.

The Board has a formal schedule of matters reserved for its approval which includes responsibility for:

- The approval of the Group strategy and its budgetary and business plans
- The review and approval of major investment proposals and capital expenditure
- The approval of annual and half-year results, interim management statements and trading statements

- The approval of the Group's dividend policy, the payment of interim dividends and the recommendation of final dividends
- Ensuring and maintaining the Group's systems of risk management, internal control and corporate governance
- Reviewing health and safety policy and its performance
- Discussing and agreeing strategic plans
- Evaluating Group and subsidiary performance and reviewing forecasts

Other day-to-day operational decisions are delegated by the Board to the Group Executive Committee (GEC). Information and agenda items are recommended to the Board by the GEC and by the Company Secretary after discussion with the Chairman and Group Chief Executive.

The Board is fully committed to diversity of gender, race and nationality and ensures it considers candidates from all such backgrounds when appointing new Board members. Further details of diversity in relation to appointments at Board level can be found in the Nomination Committee Report on page 65.

**Committees**

The Board has a number of standing committees consisting of certain Directors and, in the case of the GEC and 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. Board members receive minutes of meetings of all the Board's Committees and can request presentations or reports on areas of interest.

The performance of the Audit, Nomination and Remuneration Committees are assessed annually as part of the evaluation process described below.

Further details of the work, composition, role and responsibilities of the Audit, Nomination and Remuneration Committees are provided in separate reports on pages 58 to 87.

***Group Executive Committee  
Composition***

The Committee consists of the Executive Directors and the Group Chief Executive's direct reports and is chaired by the Group Chief Executive. The Committee has met ten times during the year ended 31 March 2014 and manages the day-to-day activities of the Group. The Company Secretary acts as secretary to the Committee.

***Role***

The Board has delegated the following responsibilities to the GEC – the development and recommendation of strategic plans for consideration by the Board, the monitoring of the operating and financial results against plans and forecasts and the development of risk management and control procedures.

### Treasury Committee Composition

The Committee consists of the Group Chief Executive, the Group Finance Director, the Group Treasurer, the Assistant Group Treasurer, the Group Financial Controller, the Company Secretary and the Group Tax Manager. The Committee meets quarterly. The Assistant Group Treasurer acts as secretary to the Committee.

#### Role

The Board has delegated the following responsibilities to the Treasury Committee – day-to-day financing and administrative matters and setting and monitoring detailed treasury policy for the Group within an overall policy framework established by the Board.

### Information and development

#### Training and induction

Directors are encouraged to update and refresh 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. This is in addition to the access that every Director has to the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with and advising the Board, through the Chairman, on new legislation and corporate governance matters. The Company Secretary is also in regular contact with the Board with suggestions of training that may be of particular relevance. A record is kept of any training undertaken.

Board Committees and 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. Specific training provided to the Board during the year included Defence Training provided by Citigroup.

A tailored induction programme is provided for each new Director. Overall, the aim of the induction programme is to introduce new Directors to the Group's business, its

## DIVISION OF BOARD RESPONSIBILITIES

### Effective division of responsibilities and Board operation

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.

#### Chairman

Responsible for leadership of the Board and ensuring its effectiveness across all aspects of its role, setting its agenda to ensure adequate discussion of all items of business and promoting openness and debate. The Chairman facilitates constructive relations between Non-Executive and Executive Directors and holds meetings with Non-Executive Directors without Executives being present. The Chairman also ensures all Directors receive accurate, timely and clear information and is responsible for effective communication between the Board and its shareholders.

#### Group Chief Executive

Direct charge of the Company on a day-to-day basis. Accountable to the Board for the operational performance of the Group. Responsible for the development of strategy and its presentation to the Board, the implementation of the agreed Group strategy and the achievement of its agreed objectives, strategic direction of the Group, and its communication within the business and with shareholders and the investment community. Executive management including leadership of the executive team, ensuring robust management succession plans are in place and discussed with the Board and championing health and safety, risk, corporate responsibility and environmental matters.

#### Non-Executive Directors

Constructively challenge regarding strategy, performance of management and also satisfy themselves on the integrity of financial information and controls and systems of risk management.

#### Senior Independent Director

Responsible for chairing the meeting of Non-Executive Directors for the purpose of evaluating the Chairman's performance. The Senior Independent Director also provides an alternative communication channel for shareholders, and other Directors if required, as well as providing a sounding board for the Chairman.



See page 42 for information on  
**Board of Directors**

operations and its governance arrangements. Also included are meetings with senior management, sales visits to customers, presentations of key business areas, and tours of our UK warehouses, as well as receiving technical training on legal and governance issues and relevant documentation.

#### *Board meetings*

Directors receive a pack of relevant and timely information on the matters to be discussed at each meeting. The Board has now moved to using a third party Board portal. This enables faster and more secure distribution of information and reduces our effect on the environment.

At each Board meeting the Group Chief Executive presents a comprehensive update on the business issues across the Group and the Group Finance Director presents a detailed analysis of the financial performance, as well as reports on investor relations and feedback from investors. GEC members and other senior managers also attend relevant parts of Board meetings in order to make presentations on their areas of responsibility, providing updates on developments and changes to the business. Between Board meetings, Directors also meet with GEC members and are provided with information in a timely manner on matters affecting the business as and when relevant.

The Board's annual schedule of meetings normally includes a visit to one of our operating companies and this year the Board visited our North American operation (Allied). This visit provided the Directors with the opportunity to tour its warehouse, review operations, meet with the management of Allied and also included visits to a local branch and a supplier. This gave the Board a better insight into their strategic issues.

#### **Meeting attendance**

The table below sets out the number of meetings of the Board and of the Audit, Remuneration and Nomination Committees during the year and individual attendance by the relevant members at these meetings, demonstrating commitment to their role as Directors of the Company. The Board normally meets seven times per year and supplementary meetings of the Board are held as and when necessary.

	Board (scheduled)	Audit Committee	Remuneration Committee	Nomination Committee
<b>Number of meetings held during the year</b>	<b>7</b>	<b>4</b>	<b>5</b>	<b>5</b>
Peter Johnson	7 (7)	—	—	5 —
Ian Mason	7 (7)	—	—	— —
Simon Boddie	7 (7)	—	—	— —
Adrian Auer	7 (7)	4 (4)	5 (5)	5 (5) (5)
Karen Guerra	7 (7)	4 (4)	5 (5)	5 (5) (5)
Paul Hollingworth <sup>1</sup>	7 (7)	4 (4)	5 (5)	4 (5) (5)
John Pattullo	7 (7)	4 (4)	4 (5)	4 (5) (5)
Rupert Soames	7 (7)	4 (4)	5 (5)	5 (5) (5)

(The maximum number of meetings held during the year that each Director could attend is shown in brackets)

1. Paul Hollingworth was not present at a meeting of the Nomination Committee as the matter under discussion was his re-appointment for a further three-year term.

## Director re-election

The Company's Articles of Association state that each Director must retire from office every three years. The Code goes beyond this, requiring all Directors to retire and stand for re-election at each Annual General Meeting. The Company complies with the Code requirement in this respect.

Paul Hollingworth's second term of appointment as a Non-Executive Director expired in May 2014. The Nomination Committee, following a review of his contribution to the Board, recommended that his appointment should be extended for a further three-year term. This recommendation was agreed by the Board.

The Board has a broad range of skills and experience and works together effectively as evidenced throughout this Annual Report. The Board, following its evaluation process, also considers that the performance of all the Directors continues to be effective and demonstrates commitment to their role and therefore recommends their re-election.

Further details of each Director standing for re-election are provided on pages 42 to 44 and details of their attendance at Board and Committee meetings are given in the Corporate Governance Report on page 54.

## Internal control and risk management

The Board is responsible for the effectiveness of the Group's system of internal control, which has been designed and implemented to meet the particular requirements of the Group and the risks to which it is exposed. The Group has an established and ongoing process of risk management and internal control which has continued throughout the year under review and up to the date of approval of the Annual Report and Accounts. During 2014 a new standardised risk assessment and reporting procedure was introduced across the business.

In accordance with the requirements of the Code and the recommendations of the Turnbull Review Group on internal control, the Audit Committee has regularly reviewed the effectiveness of the Group's system of internal control and risk management and reported the results to the Board. These reviews covered material controls, including financial, operational and compliance controls and risk management systems. Further details of this process are given in the Audit Committee Report on page 61 and the Strategic Report on page 28.

The Group's internal control system can provide reasonable but not absolute assurance against material misstatement or loss.

## Going concern

In its review of the financial statements for the year ended 31 March 2014, the Audit Committee also considered analysis to support the going concern judgement.

The Group's activities, strategy and performance are discussed in the Group Chief Executive's review on page 14.

Further details on the financial performance, financial position and cash flows of the Group are discussed in the Business and Financial Review on page 22.

Note 21 on page 123 of the consolidated financial statements provides details of the Group's debt maturity profile, capital management policy, hedging activities and financial instruments and its exposures to interest rate and foreign currency risks.

The Group is cash generative, as evidenced by its cash flow performance, with free cash flow representing 80.7% of profit after tax for the year ended 31 March 2014. Management reviews its actual and forecast cash flows each month to ensure that sufficient facilities are in place to meet the Group's requirements.

At 31 March 2014, the Group's net debt was £143.6 million with total committed debt and loan facilities of £296.9 million and undrawn committed facilities of £169.1 million.

The Group's main sources of finance are a syndicated multi-currency facility from seven banks for US\$75 million, £120 million and €50 million maturing in November 2015 and US\$150 million of Private Placement notes, split US\$65 million maturing June 2015 and US\$85 million maturing June 2017.

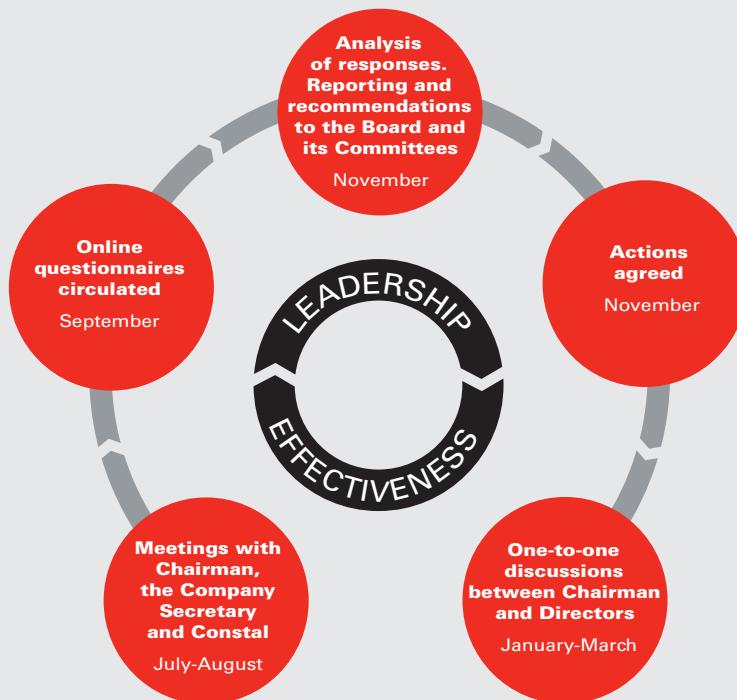
Compliance with the Group's banking covenants is monitored monthly and sensitivity analyses are periodically applied to forecasts to assess their impact on covenants and net debt. At 31 March 2014 there was significant headroom between the Group's financial position and its banking covenants; it is expected that such covenants will continue to be complied with for the foreseeable future.

The Group has sufficient financial resources, a large and geographically spread customer base and strong supplier relationships. Therefore, the Directors believe that the Group is well placed to manage its business risks successfully.

The Directors, having made appropriate enquiries, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Group's accounts.

The Directors confirm that this statement has been prepared in accordance with Going Concern and Liquidity Risk: Guidance of UK Companies 2009, published by the Financial Reporting Council in October 2009.

## Board and Committee evaluation process



Initial discussions between Constal, the Chairman and the Group Company Secretary were held to discuss the design of the questionnaire and what the Board was seeking to achieve from the evaluation. Constal was also available to answer any questions from other members of the Board.

The aim of the questionnaire sent to Board members was to gain views on certain key corporate governance areas and to give members an opportunity to say candidly what they thought; what was being done well and what needed to be improved. Views were also sought on the Chairman and Senior Independent Director (SID) and also the workings of the Committees of the Board.

The questionnaire included issues such as:

- Balance of skills and experience
- Effectiveness of meetings and team dynamics
- Development and performance against strategy
- Succession planning
- Risk management
- Training and development

The responses to the questionnaires were collated independently by Constal who prepared reports for the Chairman and the Chairman of each Committee. These reports were then reviewed and discussed by the Board and each of the Committees as appropriate.

The Chairman and the SID met to discuss the feedback on their own respective roles and a summary of this conversation was fed back to the Board.

The results of this year's evaluation were positive and it was noted that the Board members work well together in a constructive manner and bring a broad range of experience. It was also acknowledged that there had been a few changes to responsibilities and Board members over the last two years and that the Board needed time to settle down as a team.

The Board supported the conclusions of the evaluation and a number of themes were identified for action which included:

- **Strategy milestones and tracking:** approach agreed as to the tracking of progress against the strategic priorities
- **Focus on drivers of strategy:** a rolling schedule of updates on the strategic priorities
- **More information on competitors:** update scheduled for the forthcoming strategy day, as well as ongoing updates
- **Cultural diversity at the Board and throughout the organisation:** review of the approach to diversity and inclusion throughout the organisation
- **Organisational capability:** review of the capability of the organisation to deliver the Group's strategy with a particular focus on change capability
- **Succession planning:** ongoing item for discussion at the Nomination Committee

The Chairman also held one-to-one meetings with each of the Directors individually covering the themes outlined above, the dynamics of the Board, and the training and development needs of the Directors, as well as any other areas of concern. It was agreed that the Company Secretary will also continue to seek regular feedback from the individual Directors.

## Relations with shareholders

The Company encourages two-way communication with both institutional and private investors. The Annual Report and Accounts is sent to all shareholders who wish to receive a copy. It is also available on the Company's website [www.electrocomponents.com](http://www.electrocomponents.com), which additionally contains up-to-date information on the Group's activities and published financial results and presentations.

Executive Directors have frequent discussions with institutional shareholders on a range of issues affecting the Group's performance, which include meetings following the announcements of the annual and interim results. At these meetings the Executive Directors meet with major shareholders to discuss performance, strategy and governance. The Chairman, SID and Non-Executive Directors are available for discussions with shareholders if required. During the year around 70 face-to-face meetings and telephone conference calls have been held with institutional shareholders in the United Kingdom, the United States and Europe, covering over 75% of the shareholder base. The Company has hosted visits to its operating facilities for institutional shareholders during the year and from time to time it hosts briefings for analysts and investors on specific topics related to business strategy and operations. In November 2013 the GEC member responsible for the Global IT function held one such briefing for over 20 analysts and institutional shareholders on how the Group's systems strategy will enable growth. The presentations used for this briefing and investor meetings during the year are available to download from the Company's website.

The Group Finance Director regularly reports to the Board on investor relations, including reports compiled by the Company's brokers and containing feedback from institutional shareholders, ensuring that the views of the shareholders are communicated to the Board through these reports.

The Board ensures that regular and useful dialogue is maintained with shareholders and the Annual General Meeting is used as an additional opportunity for the Chairman and other Board members to meet with shareholders and investors and give them the opportunity to ask questions. Final voting results are published through a Regulatory Information Service and on the Company's website following the meeting.

# Audit Committee Report



## Dear fellow shareholder

As Chairman of the Audit Committee, I would like to present our report detailing the role and responsibilities of the Committee and its activities during the year.

The Committee aims to protect the interests of shareholders by:

- Assisting the Board in ensuring the integrity of the financial and corporate reporting and auditing processes
- Ensuring effective internal control and risk management systems are in place
- Approving the remit of the Internal Audit function and reviewing its effectiveness and findings
- Ensuring that an appropriate relationship is maintained between the Group and its Auditors including the recommendation to approve the Auditors' appointment and fees
- Reviewing the scope and effectiveness of the external audit process
- Reviewing whistleblowing, anti-bribery and fraud procedures

### Specific objectives achieved during the year:

During the year, one of our main objectives was to conduct an external audit tender. The Committee, including myself, along with the Group Finance Director, worked with the Group Finance team to agree the process and success criteria for selecting our auditors. As a consequence we are proposing the appointment of PricewaterhouseCoopers (PwC) with effect from the date of our Annual General Meeting (AGM). We would like to thank KPMG for their professional and valued contribution as our auditors. Further details of the exercise are given on page 63.

We also carried out our first external evaluation, which found that there were no major issues raised in relation to the working of the Committee, although it was agreed that it had

more of a role to play in reviewing the processes for monitoring Group performance against strategic targets and milestones.

A new risk management approach was introduced in 2014, which has implemented a new standardised risk assessment and reporting procedure across the business. Further details of our risk management approach can be found in the Strategic Report on page 28.

### Specific objectives for the coming year:

For the forthcoming year, we will be focused on establishing a close working relationship with our proposed new Auditors, PwC. We have commenced the transition process and intend to work closely with PwC to achieve a high quality audit for the year ending 31 March 2015.

As a result of the external evaluation, noted above, the Committee will be more involved in reviewing the processes for monitoring Group performance against strategic targets and milestones.

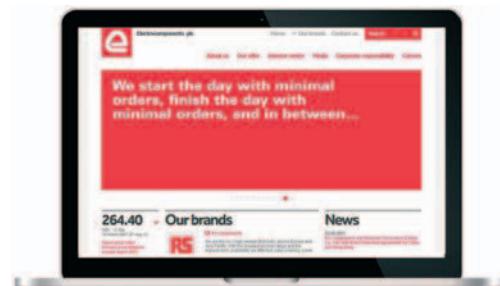
The Committee considers internal control to be of paramount importance for the Company and its shareholders and will continue to remain focused on maintaining standards at a high level going forward.

On behalf of the Committee, I would like to thank everyone for their hard work over the year, including KPMG as our Auditors, and the Internal Audit and Group Finance teams, as well as others within the Group who have contributed.

### Paul Hollingworth

Chairman of the Audit Committee

22 May 2014



### Corporate Website

Further details on the roles and responsibilities of the Audit Committee are available on our website.

 Read more online at  
[www.electrocomponents.com](http://www.electrocomponents.com)

## MAIN ACTIVITIES OF THE AUDIT COMMITTEE FOR THE YEAR ENDED 31 MARCH 2014

	May	July	November	January
<b>At specific meetings</b>	<ul style="list-style-type: none"> <li><b>Review of Financial Statements:</b> <ul style="list-style-type: none"> <li>Draft Preliminary Statement and Report and Accounts</li> <li>Group Finance procedures, disclosures and management representation letter</li> <li>Going Concern review</li> <li>Auditors' highlights memorandum</li> </ul> </li> <li><b>Risk &amp; Internal Control:</b> <ul style="list-style-type: none"> <li>Business continuity update</li> <li>Internal Audit report</li> </ul> </li> <li><b>External Auditors:</b> <ul style="list-style-type: none"> <li>Review of non-audit fees</li> </ul> </li> <li><b>Compliance:</b> <ul style="list-style-type: none"> <li>Audit Committee terms of reference</li> <li>Bribery Act – gifts and hospitality update</li> <li>Review of whistleblowing procedures</li> <li>Meeting with KPMG (without Executive Management)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><b>Review of Financial Statements:</b> <ul style="list-style-type: none"> <li>Interim Management Statement</li> </ul> </li> <li><b>Risk &amp; Internal Control:</b> <ul style="list-style-type: none"> <li>Risk Review</li> <li>Review of Internal Audit Performance (without Internal Audit)</li> <li>Internal Audit report</li> </ul> </li> <li><b>External Auditors:</b> <ul style="list-style-type: none"> <li>Audit Tender Update</li> <li>Review of Auditors' Performance and Compliance</li> <li>Review of Auditors' Audit Strategy</li> <li>Review of non-audit fees</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><b>Review of Financial Statements:</b> <ul style="list-style-type: none"> <li>Draft 2014 Half-year financial report</li> <li>Auditors' highlights memorandum</li> <li>Going Concern review</li> <li>Group Finance procedures, disclosures and management representation letter</li> <li>Impacts of changes in accounting on the Half-year financial results.</li> </ul> </li> <li><b>Risk &amp; Internal Control:</b> <ul style="list-style-type: none"> <li>Observations on Internal Audit</li> <li>Meeting with Head of Internal Audit (without executive management)</li> <li>Internal Audit report</li> </ul> </li> <li><b>External Auditors:</b> <ul style="list-style-type: none"> <li>Audit tender update</li> <li>Review of audit fees for 2014</li> <li>Review of non-audit fees</li> </ul> </li> <li><b>Compliance:</b> <ul style="list-style-type: none"> <li>Audit Committee evaluation</li> <li>Audit Committee timetable</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><b>Review of Financial Statements:</b> <ul style="list-style-type: none"> <li>Interim Management Statement</li> <li>Accounting Standards, issues and year-end reporting</li> <li>Accounting update</li> <li>Auditors' Report and Audit Committee Report</li> </ul> </li> <li><b>Risk &amp; Internal Control:</b> <ul style="list-style-type: none"> <li>Internal Audit plan for 2015</li> <li>Internal Audit report</li> </ul> </li> <li><b>External Auditors:</b> <ul style="list-style-type: none"> <li>Audit Tender update</li> <li>Review of non-audit fees</li> </ul> </li> <li><b>Compliance:</b> <ul style="list-style-type: none"> <li>Review of whistleblowing procedures</li> <li>Annual fraud report</li> </ul> </li> </ul>

<b>Membership and meetings</b>	<p><b>Committee members:</b> Paul Hollingworth (Chairman) Adrian Auer Karen Guerra John Pattullo Rupert Soames</p> <p><b>Other regular attendees:</b> Company Chairman Group Chief Executive Group Finance Director Group Company Secretary Group Financial Controller Head of Internal Audit Group Risk Manager Auditors</p>	<p>The Board is satisfied that the Chairman of the Committee has the current and relevant financial and accounting experience required by the provisions of the Code and that the other members of the Committee have a sufficiently wide range of business experience and expertise such that the Committee can effectively fulfil its responsibilities. Details of the skills and experience of the Committee members are given in their biographies on pages 42 to 44.</p> <p>Attendance of others is at the invitation of the Committee Chairman only and does not restrict the Committee's independent decision-making.</p>	<p>Meetings are scheduled in accordance with the financial and reporting cycles of the Company.</p> <p>Members and their attendance at meetings during the year are set out in the Corporate Governance section on page 54.</p> <p>The Committee has independent access to the Internal Audit team and to the Auditors. The Head of Internal Audit and the Auditors have direct access to the Chairman of the Committee outside formal Committee meetings.</p> <p>Minutes of each Committee meeting are circulated to Board members.</p>
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## Activities during the year

### Financial reporting

In its financial reporting to shareholders and other key interested parties, the Board aims to present a fair, balanced and understandable assessment of the Group's position and prospects, providing necessary information for shareholders to assess the Company's business model, strategy and performance. Details of the Group's KPIs are shown on page 20 of the Strategic Report.

The Committee reviews and advises the Board on the Group's Annual and Half-year financial reports, interim management statements and other periodic statements.

To support its review, regular reports are also received from the Group Finance Director and the Group Financial Controller. The Auditors also report on the outcomes of its half-year review and annual audit.

### Significant accounting issues and areas of judgement

The Committee focuses in particular on key accounting policies and practices adopted by the Group and any significant areas of judgement that may materially impact reported results as well as the clarity of disclosures, compliance with financial reporting standards and the relevant requirements around financial and governance reporting. Details on accounting policies and areas of judgement can be found in Note 1 on page 101.

Significant accounting issues and areas of judgement considered by the Committee during the year, and how these were addressed, are set out below. Further details in each of these areas are detailed in the summary of key estimates and judgements in Note 1 on page 101:

- **Inventory valuation:** Inventory represents a material proportion of the Group's net assets. At 31 March 2014, the Group had £258.8 million (2013: £261.9 million) of inventory on the balance sheet. The Group estimates the net realisable value of inventory in order to determine the value of any provision required and key judgements relate to the duration of product lifecycles, amount of anticipated sales over this lifecycle and the value recoverable from any excess stock. The Committee reviews reports from the Internal Audit team on inventory valuation procedures as part of their annual programme, with a particular focus this year on inventory valuation in the UK.
- **Pension valuation:** The Group has a significant defined benefit pension scheme in the UK and smaller schemes in Ireland and Germany. At 31 March 2014, the total deficit in relation to defined benefit pension schemes was £40.9 million (2013: £19.0 million). Small changes to the assumptions used to value the UK retirement benefit obligation can have a significant impact on the financial position and results of the Group. The Group is currently finalising the outcome of the funding valuation as at 31 March 2013 with the Pension Scheme Trustees. The Committee reviews the assumptions put forward by the actuaries and the Group Pension Manager.
- **Goodwill:** There is £156.8 million of goodwill on the balance sheet at 31 March 2014 (2013: £172.2 million), which principally relates to the acquisition of Allied Inc. in July 1999. The value of goodwill is reviewed regularly for impairment using a value in use model using cash flow and discount rates as set out in Note 12 on page 116. The Committee reviews these impairment tests every year, confirming that significant headroom is in place and no impairment provision is required.

- **Taxation:** The Group's taxation provision requires accounting estimates regarding tax liabilities accruing across our multiple geographies and the recoverability of losses. This year the Board reviewed and endorsed the Group's tax strategy. The Committee reviews the effective tax rate and the balance sheet provision at the half-year and the full-year, and discusses the position with senior management as well as the Auditors.

In its review of the financial statements for the year ended 31 March 2014 the Committee also considered analysis to support the Company's going concern statement.

### **Internal control and risk management**

The Board's responsibilities for internal control are set out in the Corporate Governance Report on page 55.

The Committee receives quarterly reports from the Head of Internal Audit on the performance of the system of internal control, and on its effectiveness in managing material risks and in identifying control failings or weaknesses.

The Committee annually reviews the Group's risk management process with the outcome of the review being reported to the Board. This, together with the provision of regular updates to the Board on the material risks, allows the Board to make the assessment on the systems of internal control and the residual risk for the purposes of making its public statement. Further information regarding principal risks and uncertainties to the business is given on page 28 of the Strategic Report.

Where weaknesses in the internal control system have been identified through the monitoring processes outlined above, plans for strengthening them are put in place and action plans regularly monitored until complete. During the period under review there were no control failings or weaknesses that resulted in unforeseen material losses.

The Board's report on the systems of internal control and their effectiveness, together with the going concern statement, can be found in the Corporate Governance Report on page 55.

### ***Internal financial controls***

Internal financial controls are the systems employed by the Group to enable the Directors to discharge their responsibilities for financial matters. Those responsibilities are noted on page 90.

The main financial control elements are described below.

Clear terms of reference set out the duties of the Board and the Board Committees, with delegation of operating responsibility through the Board Committees to management in all locations. Group Finance and Group Treasury manuals are in place to outline the accounting policies and controls necessary in identified areas of financial risk.

Financial reporting systems are comprehensive and include weekly, monthly and annual reporting cycles. An annual budget is set across the Group and approved by the GEC and the Board. This is then updated through quarterly reforecasts, and tracked through monthly reporting of actual against both budget, forecast and prior year. Variances are reviewed by both the GEC and the Board. In each market local leadership teams review variances and key performance indicators. These are then reviewed at regional and global levels by cross functional teams, and by global functional leadership teams. 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.

### ***Internal audit***

The Committee annually reviews and approves the scope and resourcing of the internal audit programme with the Group's internal auditors. The scope is decided upon by reference to the perceived geographic, functional and operating risks around the business. These risks are identified from previous audit experience and input from the senior management team.

The Committee reviews:

- The level and skills of resources allocated to the Internal Audit function to conduct this programme of work
- The summary of the results of each audit and the resolution of any control issues identified
- The effectiveness of the Internal Audit function

The Head of Internal Audit has regular contact with the Chairman of the Committee, in the form of telephone calls and face-to-face meetings. These discussions are around audit planning and matters noted during internal audit assignments. The Company Chairman and other members of the Committee are also available if required.

On an annual basis the Committee meets with the Head of Internal Audit without the presence of the Executive Directors. During the year, there were discussions around the control environment across the Group and in particular to ensure that, following the global realignment, appropriate authorisation levels and processes are in place.

**Auditors**

The Committee and the Board put great emphasis on the objectivity of the Group's Auditors, KPMG, in their reporting to shareholders. To ensure full and open communication, the Group Audit Engagement Director from KPMG was present at all of the Committee meetings.

The performance and effectiveness of the auditors is reviewed annually by the Committee, and covers qualification, expertise, resources and re-appointment as well as assurance that there are no issues which could adversely affect the auditors' independence and objectivity taking into account the relevant standards. As part of risk evaluation planning the Committee considers the risk of its current auditors withdrawing from the market.

Feedback is collated from senior management around the Group, which is given to KPMG to help them improve their processes. This forms part of KPMG's own system of quality control. The Committee also met with KPMG, without management being present, to review the adequacy of controls and any significant areas where management judgement has been applied.

The Auditors' engagement letter and the scope of the year's annual audit cycle is discussed in advance by the Committee, ensuring that any changes in circumstances arising since the previous year are taken into account. Following discussions between local finance teams and the local KPMG offices and a review by Group management, audit and non-audit fees are reviewed by the Committee and are then recommended to the Board for approval. Details of audit and non-audit fees are given in Note 4 on page 106.

A formal statement of independence from the Auditors is received each year. The Group will not engage the Auditors to undertake any work that could threaten their independence.

The Group has a policy on employment of former employees of the Auditors. This requires that any such employment is considered on a case by case basis and takes into account the Auditing Practices Board's Ethical Standards on such appointments. Any appointment requires approval by a combination of the Group Finance Director, the Audit Committee and the Board, depending on the seniority of the appointment.

The Company considers the annual appointment of the Auditors by the shareholders at the AGM to be a fundamental safeguard.

***Non-audit assignments undertaken by the Auditors***

The Company has a policy to ensure that the provision of such services does not impair the Auditors' independence or objectivity. In determining the policy, the Committee has taken into account possible threats to auditor independence and objectivity.

**Policy on non-audit services:**

- When considering the use of the Auditors to undertake non-audit work, the Group Finance Director should at all times give consideration to the provisions of the Financial Reporting Council Guidance on Audit Committees with regard to the preservation of independence and objectivity
- The Auditors must certify that they are acting independently
- In providing a non-audit service, the Auditors should not:
  - audit their own work
  - make management decisions for the Company
  - create a mutuality of interest
  - find themselves in the role of advocate for the Company
- Before commissioning non-audit services, the Committee or the Group Finance Director, as appropriate, must ensure that the Auditors are satisfied that there are no issues as regards independence and objectivity
- The Group Finance Director has authority to commission the 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 Committee at its next meeting. If the cost is expected to exceed £50,000, the agreement of the Committee is required before the work is commissioned. In either case, other potential providers must be adequately considered
- The Group Finance Director monitors all work done by the Auditors or other providers of accountancy services anywhere in the Group in excess of £10,000

### **External audit tender**

As anticipated in last year's Report we have, during the year under review, carried out an external audit tender process. This is in accordance with the Financial Reporting Council's Guidance on Audit Committees and the Code, both published September 2012, which stipulated that FTSE 350 companies should put their external audit services contract out to tender at least once every ten years. There are no contractual obligations that will restrict the Committee's choice of external auditors.

KPMG have been in place as the Group's Auditors since 1984, with no tender having been undertaken during this period. This year the Group Audit Engagement Director was due to be rotated in line with the Auditing Practices Boards' Ethical Standards. The last rotation took place in July 2009. This, along with the changing regulatory landscape, provided an opportunity to undertake an external tender.

The audit tender process was managed by an internal team, including the Chairman of the Committee and the Group Finance Director. A shortlist of six firms used by FTSE 250 companies was drawn up and the firms were invited to take part in a two stage process, which had been discussed and agreed with the Committee beforehand.

Initially, all firms were invited to make a short presentation covering their relevant industry and customer experience, global reach and proposed team credentials. They were also asked to highlight ways in which they could add value to the Group through the audit process, and to confirm their independence to act as the Group's auditors.

These firms were ranked by the internal team and the Group Finance Director, and the Committee approved a list of three to be invited back to present formal proposals, including fee quotes. Presentations were made to the internal team, the Group Finance Director and the Chairman of the Committee in early January and were assessed using a number of criteria including:

- The nature and scope of the firm's international presence, including global quality and assurance of the audit process and deliverables
- The quality and experience of the proposed audit partner and team, and the continuity of the proposed audit team
- Relevant experience of providing audit services to publicly quoted groups
- The ability to provide the full range of services required, including audit and specialist technical accounting advice
- The suitability of the audit approach and transition plan, including the use of systems technology
- Approach to project management, including the central coordination of timelines, planning, costs and resourcing
- Approach to managing audit independence and other governance requirements and the ability to maintain audit independence, particularly in respect of the provision of non-audit services
- Value for money, particularly the added value that the audit process will bring to the organisation
- Approach to innovation and continuous improvement of audit processes

Based on the above process and criteria the Committee has recommended that the Board propose to shareholders that PricewaterhouseCoopers (PwC) are appointed as the Group's Auditors for the 2015 audit at the forthcoming AGM.

The Committee would like to thank KPMG for their professional and valued contribution as our Auditors over many years and we look forward to working with PwC going forward.

**64****CORPORATE GOVERNANCE > DIRECTORS' REPORT > AUDIT COMMITTEE REPORT****Committee evaluation**

The activities of the Committee were reviewed as part of the external Board evaluation process performed during the year under review. Details of the evaluation process can be found in the Corporate Governance Report on page 56.

**Fraud**

The Committee reviews the procedures for prevention and detection of fraud in the Group. Suspected cases of fraud must be reported to the Group Company Secretary within 48 hours and investigated by operational management or Internal Audit, as appropriate. The outcome of any investigation is reported to the Group Company Secretary. A register of all suspected fraudulent activity and the outcome of any investigation is kept, which is circulated to the Committee on a regular basis. During the year in question, very few frauds were reported, none of which were of a material nature.

**Anti-bribery**

An anti-bribery policy applies throughout the global business. This policy is implemented by means of a global compliance programme which focuses on the risk areas identified. All managers across the Group are required to sign and accept the policy on an annual basis, and managers and all staff in risk areas have access to an online training module. A gift and hospitality register has been introduced to ensure transparency.

**Whistleblowing**

In accordance with the provisions of the Code, the Committee is responsible for reviewing the arrangements whereby staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters and ensuring that these concerns are investigated and escalated as appropriate. This is run by an external third party. Whistleblowing is referred to as Speak Up internally and is available to all employees in the Group. The Committee receives aggregated reports on matters raised through these services and monitors their use throughout the Group.

# Nomination Committee Report



**"The Board is fully committed to showing leadership in fostering diversity of gender, race and nationality throughout all levels of the business"**

## Dear fellow shareholder

As Chairman of the Nomination Committee, I would like to present our report detailing the role and responsibilities of the Committee and its activities during the year.

The Committee meets as required and has responsibility for matters relating to Board succession planning and makes recommendations to the Board where appropriate. Succession planning for the GEC is also reviewed. The Committee periodically assesses what new skills, knowledge and experience are required on the Board and, if necessary, the balance of independence. During the period under review the Committee met five times.

Minutes of each Committee meeting are circulated to Board members.

### Committee members:

Peter Johnson (Chairman)  
Adrian Auer  
Karen Guerra  
Paul Hollingworth  
John Pattullo  
Rupert Soames

Details of the skills and experience of the Committee members are given in their biographies on pages 42 to 44.

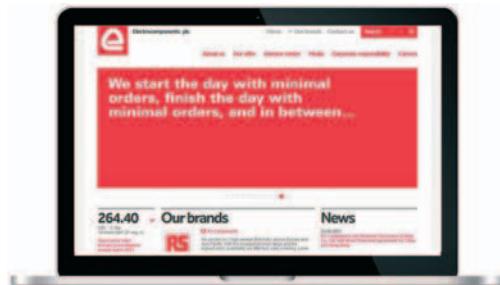
### Specific objectives achieved during the year:

The Committee reviewed the emergency, interim and long-term succession plans for the Executive Directors. In addition it considered the extension of the terms of appointment of the Chairman as well as reviewing and recommending to the Board the renewal of Paul Hollingworth's appointment for a further three-year term.

Our first external evaluation took place during the year and it was noted that going forward the Committee would focus on succession planning and its strategic role by taking a much longer term view of the needs of the Board.

### Specific objectives for the coming year:

The Committee will be considering closely the long-term succession plans for both the Executive and Non-Executive Directors on a more strategic level.



## Corporate Website

Further details on the roles and responsibilities of the Nomination Committee are available on our website.



Read more online at  
[www.electrocomponents.com](http://www.electrocomponents.com)

**Appointment of Directors**

No directors have been appointed during the year.

Currently, where a new director is to be appointed, a candidate profile is recommended which is then used to brief external recruitment consultants appointed by the Committee to undertake the selection process. Initial meetings are held generally by the Company Chairman and the Group Chief Executive with prospective candidates and a shortlist of individuals is then selected to meet with other Committee members. The Committee then meets and decides which candidate, if any, will be recommended to join the Board.

Letters of appointment for Non-Executive Directors will set out expected time commitments. Such time commitments can involve peaks of activity at particular times. The Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office and at our AGM.

Any future appointments to the Board will receive an induction in respect of their directorship similar to that employed for the appointments we made in January 2013. This will typically include meetings with senior management, sales visits to customers, presentations from key business areas, and tours of our UK warehouses, as well as technical training on legal and governance issues.

**Diversity**

The Committee has a Policy Statement which emphasises its adherence to the Group Diversity Policy in considering succession planning and recruitment at Board level, and undertakes that any recruitment consultants or other advisers it appoints to help with these tasks are made aware of the Group Diversity Policy. The Committee states that it is in the best interests of the Company to ensure balance and diversity at Board level, and will encourage recruitment consultants to widen search parameters so that a diverse range of candidates may be considered, where appropriate.

**Peter Johnson**

Chairman of the Nomination Committee  
22 May 2014

# Directors' Remuneration Report



## Summary

This Directors' Remuneration Report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Report meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules. In this Report we describe how the principles of good governance relating to directors' remuneration, as set out in the UK Corporate Governance Code (Code), are applied in practice. The Remuneration Committee confirms that throughout the financial year the Company has complied with these governance rules and best practice provisions.

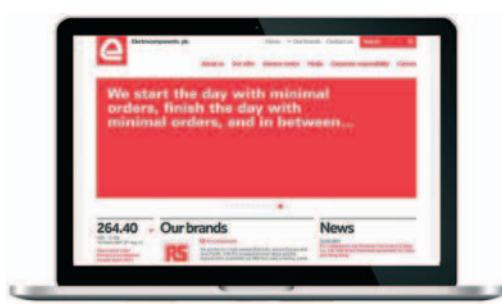
## Dear fellow shareholder

On behalf of the Board of Directors, it gives me great pleasure to present to you the Directors' Remuneration Report for the year ended 31 March 2014 for which we will be seeking approval at the Annual General Meeting (AGM) on 24 July 2014. In line with the new reporting regulations that came into effect on 1 October 2013, this Directors' Remuneration Report (Report) is split into three parts: this Statement; a Policy Report (subject to a binding shareholder vote at the 2014 AGM); and an Annual Report on Remuneration (subject to an advisory vote). All of us who serve on the Remuneration Committee (Committee) hope that you find the new layout of the Report to be clear and transparent; in common with many other public companies we have worked hard to find our way through the thicket of new reporting requirements, and to abide by the spirit of the new regulations. It is already clear that companies are taking different approaches to particular requirements, and our view is that reporting will evolve over the next few years as best practice becomes established. So, we have set out with good intent, but there may be parts where others have taken a different approach, and we undertake to watch carefully over the next few years and adapt to best practice as it emerges. In the meantime, I hope that we can count on your support for our Directors' Remuneration Policy (which remains unchanged from last year), and its implementation during the year.

## Objectives for remuneration

The principal objective of our remuneration policy is to enable the Company to attract, motivate and retain the people it needs to maximise long-term value created by the business. Our remuneration policy has been designed to support this principle by:

- Aligning the interests of executives and shareholders
- Achieving an appropriate balance between fixed and performance-related pay
- Achieving an appropriate balance between the rewards available for meeting short and long-term objectives
- Supporting the Group's behaviours and culture
- Complying with corporate governance best practice guidelines
- Expressing the reward strategy in a way that is understandable, clear and meaningful.



## Corporate Website

Further details on the roles and responsibilities of the Remuneration Committee are available on our website.



Read more online at  
[www.electrocomponents.com](http://www.electrocomponents.com)

**Shareholder engagement during the year**

During April, we consulted with our major shareholders and their representative bodies on our proposed update of the Long Term Incentive Plan (LTIP) rules which we are asking shareholders to adopt at the forthcoming AGM. Details of the Plan are given in the Notice of Meeting. We have received no responses from shareholders or their representative bodies expressing any concerns with the proposed updates to the LTIP.

**How remuneration supports the business strategy**

Pages 12 and 13 of this Annual Report set out Electrocomponents' strategy, which is based on seven key priorities. Our success in delivering this strategy is in turn measured by four key performance indicators (KPIs): sales growth, return on sales, return on capital employed, and free cash flow as a percentage of sales. The annual bonus and LTIP performance measures were selected to ensure executive incentive outcomes are closely aligned with our performance against these KPIs, as follows:

Key Performance Indicator	Reflected in bonus measures?	Reflected in LTIP measures?
Group sales growth	✓ <i>Sales growth</i>	✓ <i>EPS</i>
Group return on sales	✓ <i>PBTR</i>	✓ <i>TSR</i>
Return on capital employed		
Free cash flow as a % of sales	✓ <i>Cash flow</i>	

We have developed our strategy to deliver long-term growth in shareholder value. Our short and long-term incentives link directly to the KPIs that we believe will deliver that strategy. So if the Executive Directors and management team do well, shareholders will too. If shareholders suffer pain, so will management. The measurement benchmarks are linked to the strategy KPIs, and our LTIP combines measures of both absolute performance (how well have we done?) and relative performance (how well have we done compared with others?). The requirement to defer one third of any bonus earned, and the use of LTIP performance shares, also serves to emphasise long-term value creation. It has been our practice to design our executive remuneration arrangements to ensure that executives can earn more from performance-related pay than from fixed pay; and, within the element of performance-related pay, that the long-term element is more valuable than the short-term. We think that philosophy works well.

**Rupert Soames**

Chairman of the Remuneration Committee

22 May 2014

## Directors' Remuneration Policy

This section of the report sets out the Remuneration Policy for Executive Directors and Non-Executive Directors, and will be subject to a binding vote at the 2014 AGM. If approved at the AGM, the Policy will come into effect on 24 July 2014.

### Executive Director remuneration policy table

This Policy has been designed to support the principal objective of enabling the Company to attract, motivate and retain the people it needs to maximise the value of the business.

#### Component: Base salary

<b>Objective</b>	To provide broadly market median levels of fixed pay over the longer term, with increases reflecting Company and individual performance.
<b>Operation</b>	<p>Generally reviewed each year, with increases effective 1 June with reference to salary levels at other FTSE 250 companies of broadly similar size, sector and international scope to Electrocomponents.</p> <p>The Committee also considers the salary increases applying across the rest of the UK business when determining increases.</p>
<b>Opportunity</b>	<p>Salaries in respect of the year under review (and for the following year) are disclosed in the Annual Report on Remuneration. Base salary increases are applied in line with the outcome of the annual review. Factors that are considered include: increases for other employees, changes in role and responsibilities, market levels, and individual and Company performance.</p> <p>In circumstances where an Executive Director's salary is already consistent with policy, salary increases will not normally be materially different to those given to other senior managers in the Group.</p>
<b>Performance measures</b>	Not applicable.

#### Component: Pension

<b>Objective</b>	To provide a level of retirement benefit that is competitive in the relevant market.
<b>Operation</b>	<p>Existing Directors, who previously participated in the Defined Benefit section of the Company Pension Scheme (Scheme), now receive cash in lieu reflecting the prior arrangement on a cost neutral basis to the Company.</p> <p>The Defined Benefit section of the Scheme is now closed to new entrants.</p>
<b>Opportunity</b>	<p><b>For current Executive Directors</b></p> <p>CEO: 30% of base salary CFO: 43.5% of base salary</p> <p>For future external hires, the level of pension contribution will be determined in the context of market norms.</p> <p>Base salary is the only element of remuneration that is pensionable.</p>
<b>Performance measures</b>	Not applicable.

**CORPORATE GOVERNANCE > DIRECTORS' REPORT > DIRECTORS' REMUNERATION REPORT**  
**DIRECTORS' REMUNERATION POLICY**
**Component: Benefits**

<b>Objective</b>	Provision of benefits in line with the market.
<b>Operation</b>	Executive Directors are provided with a company car (or a cash allowance in lieu thereof), mobile phone, fuel allowance and medical insurance. Other benefits may be introduced from time to time to ensure the benefits package is appropriately competitive and reflects the circumstances of the individual Director.
<b>Opportunity</b>	<p>None of the existing Executive Directors received total taxable benefits exceeding 10% of salary during any of the last three financial years, and it is not anticipated that the cost of benefits provided will exceed this level in the financial years over which this policy will apply.</p> <p>The Committee retains the discretion to approve a higher cost in exceptional circumstances (for example relocation expenses or expatriation allowance) or in circumstances where factors outside the Company's control have changed materially (e.g. market increases in insurance costs).</p> <p>Benefits in respect of the year under review are disclosed in the Annual Report on Remuneration.</p>
<b>Performance measures</b>	Not applicable.

**Component: Annual bonus**

<b>Objective</b>	To focus Executive Directors on achieving demanding annual targets relating to Company performance.
<b>Operation</b>	<p>Performance targets are set at the start of the year and aligned with the annual budget agreed by the Board. At the end of the year, the Remuneration Committee determines the extent to which these targets have been achieved.</p> <p>For threshold performance, the bonus payout will normally be nil, but in no circumstances will exceed 10% of the maximum opportunity.</p> <p>Two-thirds of the total bonus payment is paid in cash. One-third of the total bonus payment is converted into Electrocomponents shares under the Deferred Share Bonus Plan (DSBP). These shares vest after two years, subject to continued employment and forfeiture in instances of misconduct or misstatement.</p>
<b>Opportunity</b>	<p>Maximum opportunity: 150% of base salary</p> <p>Target opportunity: 75% of base salary</p>
<b>Performance measures</b>	<ul style="list-style-type: none"> <li>• Sales growth</li> <li>• Profit before tax and reorganisation costs (PBTR)</li> <li>• Cash flow</li> </ul> <p>The weightings for these performance conditions are agreed by the Committee at the start of each year, according to annual business priorities. No one element will be weighted less than 15%, or more than 50% of the total opportunity.</p> <p>The Committee has discretion to adjust the formulaic bonus outcomes (including down to zero) to ensure alignment of pay with performance and fairness to shareholders and participants. Any such discretion will be within the limits of the scheme, and will be fully disclosed in the relevant Annual Report on Remuneration.</p> <p>Further details, including the performance targets attached to the bonus for the year under review, are given on page 81 of the Annual Report on Remuneration.</p>

**Component: LTIP**

<b>Objective</b>	To incentivise Executive Directors and senior managers to deliver long-term performance by aligning their performance with shareholders' interests and reflect best practice.
<b>Operation</b>	<p>A conditional award of shares (Award) is made annually.</p> <p>The LTIP performance period is three years.</p> <p>The Award is subject both to a performance condition and, normally, on continued employment with the Group until the determination of the performance condition. Threshold performance results in nil vesting.</p> <p>Additionally, for the Award to vest the Committee must be satisfied that there has been a sustained improvement in the Company's underlying financial performance.</p> <p>The Committee has discretion to adjust the formulaic LTIP outcomes to ensure the pay outcome is aligned with value creation for shareholders and that the outcome is a fair reflection of the Company's performance.</p> <p>If no entitlement has been earned at the end of the relevant performance period, awards lapse. There is no re-testing.</p> <p>There will be a further holding period of at least six months following vesting.</p>
<b>Opportunity</b>	<p>Maximum opportunity: 150% of basic salary</p> <p>In normal circumstances, however, the Committee would grant awards with a value below this level.</p> <p>Details of actual LTIP awards in respect of each year will be disclosed in the Annual Report on Remuneration.</p> <p>A payment equivalent to the dividends that would have accrued on the number of shares that vest will be made to participants on vesting.</p>
<b>Performance measures</b>	<p>Vesting of one half of the Awards made to Executive Directors is dependent upon Electrocomponents' three-year total shareholder return (TSR) percentage outperformance of a benchmark. Vesting of the other half of the Award is conditional on growth in the Company's earnings per share (EPS).</p> <p>Further details, including the performance targets attached to the LTIP in respect of each year, will be disclosed in the Annual Report on Remuneration.</p>

**Component: Save As You Earn (SAYE)**

<b>Objective</b>	To encourage the ownership of Electrocomponents plc shares.
<b>Operation</b>	An HMRC approved scheme where employees (including Executive Directors) may save an agreed amount up to the individual monthly limit set by HMRC from time to time over three or five years. Options are normally granted at a discount of up to 20%.
<b>Opportunity</b>	Savings are capped at an agreed amount up to the individual monthly limit set by HMRC from time to time.
<b>Performance measures</b>	Not applicable.

**CORPORATE GOVERNANCE > DIRECTORS' REPORT > DIRECTORS' REMUNERATION REPORT  
DIRECTORS' REMUNERATION POLICY****Component: Share ownership**

<b>Objective</b>	To align Executive Director and shareholder interests and reinforce long-term decision-making.
<b>Operation</b>	Executive Directors are expected to retain at least 50% of any share awards that vest (net of tax) in order to help build up the following required personal holdings of Electrocomponents plc shares:  CEO: 200% of salary CFO: 100% of salary  Only shares that are held beneficially count in the assessment of whether an Executive Director has met the required ownership level.
<b>Opportunity</b>	Not applicable.
<b>Performance measures</b>	Not applicable.

**Notes to the policy table****Payments from previous awards**

The Company will honour any commitment entered into, and Executive Directors will be eligible to receive payment from any award made, prior to the approval and implementation of the remuneration policy detailed in this report, i.e. before 24 July 2014. Details of these awards are, and will be, disclosed in the Annual Report on Remuneration.

**Performance measure selection and approach to target setting**

The annual bonus performance measures have been selected to directly reinforce our medium-term performance framework of (1) higher sales growth, (2) improved profitability, and (3) strong free cash flow (see pages 12 and 13 for further details of our strategy). The LTIP vests based on three-year TSR outperformance of the FTSE 250 index and achievement of three-year EPS growth targets. The Committee selected TSR and EPS as performance measures because it felt this would provide a good balance between external and internal measures of performance, as well as absolute and relative performance. TSR aligns performance with shareholders' interests. EPS is a measure of the profitability of the Company that directly reflects management performance, and is a measure used by investors in deciding whether to invest in the Company. EPS is measured on a fully diluted basis, as shown in the Group's financial statements, as this provides an independently verifiable measure of performance.

Targets applying to the bonus and LTIP are reviewed annually, based on a number of internal and external reference points. Bonus targets are aligned with the annual budget agreed by the Board. LTIP targets reflect industry context, expectations of what will constitute appropriately challenging performance levels, and factors specific to the Company.

**Differences from remuneration policy for other employees**

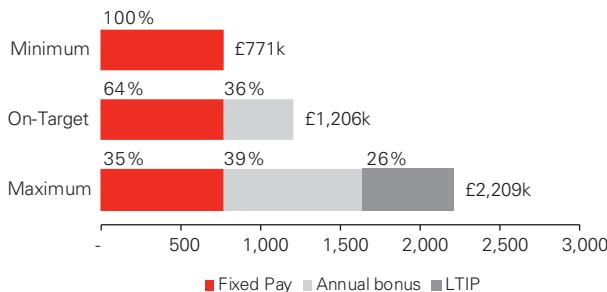
The remuneration policy for other employees is based on broadly consistent principles as described above. Annual salary reviews across the Group take into account Company performance, local pay and market conditions, and salary levels for similar roles in comparable companies.

All executives and senior managers are eligible to participate in annual bonus schemes. Opportunities and performance measures vary by organisational level, geographical region and an individual's role. Other members of the Group Executive Committee participate in the DSBP and LTIP on similar terms as the Executive Directors, although award sizes may vary. Below this level, senior managers are eligible to participate in the LTIP. Grants are based on personal performance and vest after three years subject to continued employment. All UK-based employees are eligible to participate in the Company's HMRC approved savings-related share scheme on identical terms. Employees based outside the UK are eligible to participate in a cash-based alternative on similar terms.

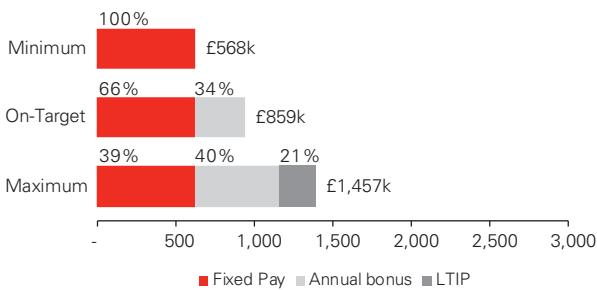
## Performance scenario charts

The graphs below provide estimates of the potential future reward opportunity for Executive Directors, and the potential mix between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-Target' and 'Maximum'.

### Group Chief Executive



### Group Finance Director



Potential opportunities illustrated above are based on the policy applied to the base salary at 1 April 2014. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance for 2014/15. It should be noted that any awards granted under the DSBP do not normally vest until the second anniversary of the date of grant, and LTIP awards do not normally vest until the third anniversary of the date of grant. This illustration is intended to show the relationship between executive pay and performance. Please note, however, that actual pay delivered will be further influenced by changes in the Company's share price and dividends paid.

### Valuation assumptions

The 'Minimum' scenario reflects base salary, pension and benefits (i.e. fixed remuneration), being the only elements of the Executive Directors' remuneration package not linked to performance. Pension contributions are 30% of base salary for the Group Chief Executive and 43.5% for the Group Finance Director.

The 'On-Target' scenario reflects fixed remuneration as above, plus target bonus payout (75% of salary) and LTIP threshold vesting at 0% of the maximum award level.

The 'Maximum' scenario reflects fixed remuneration, plus full payout under all incentives (150% of salary under the annual bonus, and 100% and 80% of salary under the LTIP for the Group Chief Executive and Group Finance Director, respectively). The value of LTIP assumes no increase in the underlying value of the shares.

**Approach to Executive Director recruitment remuneration****External appointment**

In cases of hiring or appointing a new Executive Director from outside the Company, the Remuneration Committee may make use of all existing components of remuneration, as follows:

Approach to Executive Director recruitment remuneration	
<b>Base salary</b>	The base salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and the current salary of the incumbent in the role.
<b>Benefits</b>	Where a new appointee has an initial base salary set below market, the Committee may make above-market phased increases over a period of two or three years, subject to the individual's development and performance in the role.
<b>Pension</b>	New appointees will be eligible to receive benefits which may include (but are not limited to) the provision of a company car or car allowance, medical insurance, company mobile phone, expatriation allowances and any necessary expenses relating to an executive's relocation.
<b>SAYE</b>	New appointees will receive pension contributions into a defined contribution pension arrangement or an equivalent cash supplement, or a combination of both.
<b>Annual bonus</b>	New appointees will be eligible to participate on identical terms to all other employees.
<b>LTIP</b>	The bonus structure described in the policy table will apply to new appointees. The maximum opportunity will be 150% of salary, pro-rated in the year of joining to reflect the proportion of that year employed.  One-third of any bonus earned will be deferred into the DSBP on the same terms as other Executive Directors.  New appointees will be granted awards under the LTIP with a face value of up to 150% of salary. Other features of the Awards will be as described in the policy table.

In determining the appropriate remuneration structure and level for the appointee, the Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of our shareholders. The Committee may also need to make an award of shares or cash payment in respect of a new appointment to 'buy-out' incentive arrangements forfeited on leaving a previous employer, over and above the approach and award limits outlined in the table above, availing itself of Listing Rule 9.4.2R if necessary. In doing so, the Committee will consider relevant factors including any performance conditions attached to the awards being bought out, and the likelihood of those conditions being met. Any such buy-out will have a fair value no greater than the fair value of the awards forfeited, and details will be fully disclosed in the relevant Annual Report on Remuneration.

**Internal promotion to the Board**

In cases of appointing a new Executive Director by way of internal promotion, the policy will be consistent with that for external appointees detailed above. Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these arrangements even if there are instances where they would not otherwise be consistent with the prevailing Executive Director remuneration policy at the time of promotion.

## Service contracts and policy for payment for loss of office

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Committee. Executive Directors have service agreements that operate on a 12-month rolling basis. In line with the Committee's policy, these service agreements provide for 12 months' notice by the Company and by the Executive Directors. The Company entered into an updated service agreement with Ian Mason on 1 March 2001. This agreement replaced all prior arrangements and was amended on 24 March 2014. The Company entered into a service agreement with Simon Boddie on 25 May 2005. Copies of Executive Director service contracts are available to view at the Company's registered office.

The Committee's policy for Directors' termination payments is to provide only what would normally be due to Directors had they remained in employment in respect of the relevant notice period, and not to go beyond their normal contractual entitlements. Any incentive arrangements will be dealt with subject to the relevant rules, with any discretion exercised by the Committee on a case-by-case basis taking into account the circumstances of the termination. Termination payments will also take into account any statutory entitlement at the appropriate level, to be considered by the Committee on the same basis. The Committee will monitor and where appropriate enforce the Directors' duty to mitigate loss. When the Committee believes that it is essential to protect the Company's interests, additional arrangements may be entered into (for example post-termination protections above and beyond those in the contract of employment) on appropriate terms. Simon Boddie's service agreement provides for base salary in lieu of notice. Ian Mason's service agreement provides for base salary and contractual benefits in lieu of notice. The table below summarises how awards under the annual bonus and LTIP are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion:

	<b>Reason for cessation</b>	<b>Calculation of vesting/payment</b>	<b>Timing of vesting</b>
Annual bonus	Termination with 'cause'	No bonus paid.	Not applicable.
	Resignation	No bonus is normally paid unless the Committee in its absolute discretion (and on a case-by-case basis) determines otherwise.	After the end of the financial year.
	All other circumstances	Bonuses are paid only to the extent that the associated objectives, as set at the beginning of the plan year, are met. Any such bonus would normally be paid on a pro-rata basis, taking account of the period actually worked.	After the end of the financial year.
DSBP	Termination with 'cause'	DSBP awards lapse.	Not applicable.
	Resignation	DSBP awards normally lapse unless the Committee in its absolute discretion (and on a case-by-case basis) determines otherwise.	At the normal vesting date unless the Committee decides that awards should vest at the cessation of employment.
	Injury, retirement with the agreement of the Company, redundancy or other reason that the Committee determines in its absolute discretion (other than in cases of voluntary resignation or termination with 'cause')	DSBP awards are pro-rated to reflect the proportion of the vesting period that has elapsed on cessation of employment, unless the Committee at its discretion decides otherwise.	At the normal vesting date, unless the Committee decides that awards should vest on the date of cessation of employment.
	Death	Awards vest in full, unless the Committee at its discretion decides that awards should be time pro-rated.	As soon as possible after death.
	Change of control	Awards vest in full, unless the Committee at its discretion decides that awards should only vest in part. Awards may alternatively be exchanged for new equivalent awards in the acquirer, where appropriate.	On change of control.

<b>Reason for cessation</b>	<b>Calculation of vesting/payment</b>	<b>Timing of vesting</b>
Termination with 'cause'	LTIP awards lapse.	Not applicable.
Resignation	LTIP awards normally lapse, unless the Committee in its absolute discretion (and on a case-by-case basis) determines otherwise.	If applicable, at the normal vesting date unless the Committee decides that awards should vest on the date of cessation of employment, in which case the Committee may determine to what extent the performance condition has been achieved in such manner as it considers reasonable.
Injury, retirement with the agreement of the Company, redundancy or other reason that the Committee determines in its absolute discretion (other than in cases of termination with 'cause')	The Committee determines whether and to what extent outstanding awards vest based on the extent to which performance conditions have been achieved (normally over the full performance period). Awards are also pro-rated to reflect the proportion of the performance period worked, unless the Committee decides otherwise.	At the normal vesting date unless the Committee decides that awards should vest on the date of termination of employment, in which case the Committee may determine to what extent the performance condition has been achieved in such manner as it considers reasonable.
Death	The Committee has discretion to dis-apply performance conditions and waive time pro-rating.	As soon as possible after death.
Change of control	Awards would vest to the extent that any performance conditions have been satisfied. Awards would also be reduced pro rata to take into account the proportion of the performance period not completed, unless the Committee decides otherwise. Awards may alternatively be exchanged for new equivalent awards in the acquirer, where appropriate.	On change of control.

**External appointments**

Executive Directors are permitted to take up one non-executive position on the board of another company, subject to the prior approval of the Board. The Executive Director may retain any fees payable in relation to such an appointment. Details of external appointments and the associated fees received are included in the Annual Report on Remuneration.

**Consideration of employment conditions elsewhere in the Company**

The Company seeks to promote and maintain good relations with employee representative bodies – including trade unions and works councils – as part of its broader employee engagement strategy and consults on matters affecting employees and business performance as required in each case by law and regulation in the jurisdictions in which the Company operates. The Committee is mindful of the increases applying across the rest of the business in relevant markets when considering salaries for Executive Directors, but does not currently consult with employees specifically on executive remuneration policy and framework.

## Consideration of shareholder views

The Committee considers shareholder views received during the year and at the AGM each year, as well as guidance from shareholder representative bodies more broadly, in shaping remuneration policy. The vast majority of shareholders continue to express support of remuneration arrangements at Electrocomponents. The Committee keeps the remuneration policy under regular review, to ensure it continues to reinforce the Company's long-term strategy, and aligns Executive Directors with shareholders' interests. We will consult shareholders before making any significant changes to our remuneration policy.

## Non-Executive Director remuneration policy

Non-Executive Directors do not have service agreements, but are engaged on the basis of a letter of appointment providing for an initial three-year term. The Chairman's letter of appointment provides a six-month notice period and the Non-Executive Directors a three-month notice period. In line with the UK Corporate Governance Code guidelines, all Directors are subject to re-election annually at the AGM.

It is the policy of the Board of Directors that Non-Executive Directors are not eligible to participate in any of the Company's bonus, long-term incentive or pension plans. Details of the policy on fees paid to our Non-Executive Directors are set out in the table below:

Component: Fees	
<b>Objective</b>	To attract and retain Non-Executive Directors of the highest calibre with broad commercial experience relevant to the Company.
<b>Operation</b>	<p>The fees paid to Non-Executive Directors are determined by the Board of Directors as a whole. Additional fees are payable for acting as Chairman of the Audit and Remuneration Committees, and to the Senior Independent Director.</p> <p>Fee levels are reviewed every two years, with any adjustments effective 1 April. Fees are reviewed by taking into account external advice on best practice and fee levels at other FTSE 250 companies of broadly similar size, sector and international scope to Electrocomponents.</p> <p>Time commitment and responsibility are also taken into account when reviewing fees.</p>
<b>Opportunity</b>	<p>Aggregate ordinary fees for Directors are limited to £600,000 by the Company's Articles of Association.</p> <p>The fees paid to Non-Executive Directors in respect of the year under review (and for the following year) are disclosed in the Annual Report on Remuneration.</p>
<b>Performance measures</b>	Not applicable.

## Approach to Non-Executive Director recruitment remuneration

In recruiting a new Non-Executive Director, the Remuneration Committee will use the policy as set out in the table above. A base fee in line with the prevailing fee schedule would be payable for serving as a Non-Executive Director, with additional fees payable for acting as Chairman of the Audit or Remuneration Committees.

## Annual Report on Remuneration

The following section provides details of how our remuneration policy was implemented during the year ended 31 March 2014.

### Remuneration Committee

The Remuneration Committee is a Committee of the Board. Its responsibilities are set out in its Terms of Reference which can be found on the Company's website at [www.electrocomponents.com](http://www.electrocomponents.com). The task of the Committee is to consider the remuneration packages needed to attract, retain and motivate Executive Directors and other senior employees and to ensure that they are compensated appropriately for their contributions to the Group's performance. The Committee also considers the remuneration of the Company Chairman. The Board as a whole considers and determines the remuneration of the Non-Executive Directors. No individual was present while decisions were made regarding their own remuneration. During the year under review, the following independent Directors were members of the Remuneration Committee:

- Rupert Soames (Chairman)
- Adrian Auer
- Paul Hollingworth
- Karen Guerra
- John Pattullo

Details of the skills and experience of the Committee members are given in their biographies on pages 42 to 44. In addition, the Company Chairman, Group Chief Executive, Group Finance Director and Global HR Director were invited to attend Committee meetings to advise on specific questions raised by the Committee and on matters relating to the performance and remuneration of senior managers, other than in relation to their own remuneration. The Company Secretary acts as Secretary to the Committee.

The Committee met in full five times during the year. Attendance by individual Committee members at meetings is detailed in the Corporate Governance Report on page 54.

### Advisers

Kepler Associates ('Kepler') has advised the Committee since 2001 and, following a tender process, were re-appointed by the Committee in 2005. The Committee reviewed the independence, cost and effectiveness of Kepler during the year and agreed to continue with them as their remuneration consultants. Kepler is a founding member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com). In the year ended 31 March 2014, Kepler Associates provided:

- Advice and data in respect of the remuneration of the Executive Directors;
- Advice regarding the setting of performance targets for the LTIP, and the data required for the measurement of those performance targets;
- Advice on the reward framework for senior executives below Board level; and
- Advice and guidance in respect of the new regulatory framework and reporting regulations on executive remuneration which came into force in October 2013.

Kepler provides no other services to the Company or its Directors and the Committee considers it to be independent. Kepler's total fees for the provision of remuneration services to the Committee during the year ended 31 March 2014 were £27,884 on the basis of time and materials.

## MAIN ACTIVITIES OF THE REMUNERATION COMMITTEE IN THE YEAR ENDED 31 MARCH 2014

	May	July	December	January	March
At specific meetings	<ul style="list-style-type: none"> <li>Final approval of Remuneration Report for year ended 31 March 2013</li> <li>Consideration of level of LTIP award for Executive Directors</li> <li>Determination of annual bonus outcomes for 2013</li> <li>Determination of vesting outcome of LTIP awards made in 2010</li> </ul>	<ul style="list-style-type: none"> <li>Final approval of LTIP award level for Executive Directors</li> <li>Final approval of DSBP vesting</li> </ul>	<ul style="list-style-type: none"> <li>Update on changes to 2014 remuneration reporting requirements</li> <li>Results of external Committee evaluation</li> <li>Review of fees paid to consultants</li> <li>Review of CEO's service contract</li> </ul>	<ul style="list-style-type: none"> <li>Review of draft Directors' Remuneration Report for year ended 31 March 2014 and compliance with new reporting regulations</li> <li>Discussion regarding holding periods after LTIP vesting</li> <li>Discussion regarding Executive Director recruitment remuneration policy</li> </ul>	<ul style="list-style-type: none"> <li>Review of Executive Directors' remuneration structure and pay levels</li> <li>Review and setting of performance targets for the 2015 annual bonus and LTIP award for 2014</li> <li>Review of key design features for renewal of the LTIP for approval at the 2014 AGM</li> <li>Approval of terms of 2014 invitations for all employee share-based incentive plans</li> </ul>

### Summary of shareholder voting at the 2013 AGM

The results of the advisory vote on the 2013 Remuneration Report at the 2013 AGM are summarised below:

	Total number of votes	% of votes cast
For (including discretionary)	376,855,306	97.9%
Against	8,067,142	2.1%
Total votes cast (excluding withheld votes)	384,922,488	100.0%
Votes withheld	201,722	
<b>Total votes (including withheld votes)</b>	<b>385,124,170</b>	

The Committee welcomes the strong support received from shareholders at the 2013 AGM for remuneration at Electrocomponents.

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**ANNUAL REPORT ON REMUNERATION**
**Single figure for total remuneration for Executive Directors (audited)**

The following table provides a single figure for total remuneration of the Executive Directors for the year ended 31 March 2014 and the prior year. The values of each element of remuneration are based on the actual value delivered, where known. The value of the annual bonus includes the element of bonus deferred under the DSBP. For the year ended 31 March 2013, the LTIP value has been restated to reflect the value of LTIP awards that vested on 30 May 2013 using a share price of 273.5p, being the closing price on that day, rather than the estimated value given in last year's Report (which was based on a share price of 252.57p, being the three-month average share price to 31 March 2013):

	<b>2014</b> £	2013 £
<b>Ian Mason</b>		
Base salary	<b>579,160</b>	576,805
Taxable benefits <sup>1</sup>	<b>18,464</b>	17,808
Annual bonus <sup>2</sup>	<b>515,664</b>	32,144
LTIP <sup>3</sup>	—	423,600
Pension benefit <sup>4</sup>	<b>173,748</b>	173,042
Other <sup>5</sup>	—	—
<b>Total</b>	<b>1,287,036</b>	1,223,399
<b>Simon Boddie</b>		
Base salary	<b>386,110</b>	384,540
Taxable benefits <sup>1</sup>	<b>15,123</b>	14,657
Annual bonus <sup>2</sup>	<b>343,779</b>	21,429
LTIP <sup>3</sup>	—	211,800
Pension benefit <sup>4</sup>	<b>167,958</b>	167,275
Other <sup>5</sup>	<b>1,333</b>	—
<b>Total</b>	<b>914,303</b>	799,701

1. Taxable benefits consist of medical insurance, company car (or allowance), and personal fuel allowance. The table below details benefits received in respect of 2014:

	Ian Mason	Simon Boddie
Medical insurance	£1,146	£1,146
Company car (or allowance)	£16,118	£12,777
Fuel allowance	£1,200	£1,200

2. Annual bonus comprises both the cash annual bonus for performance during the year and the face value of the deferred share element on the date of deferral. The deferred share element (one-third of the figures shown in the table above) is deferred for two years. See 'Annual Bonus in respect of 2014 performance' on page 81 for further details.
3. For the year ended 31 March 2014, the LTIP value shows the value of LTIP awards made in July 2011, all of which have now lapsed based on performance. See the relevant sections on page 82 for further details. For the year ended 31 March 2013, the table shows the vesting date value of LTIP shares granted in June 2010 which vested as to 55.5% on 30 May 2013 based on performance to 31 March 2013 and at a share price of 273.5p, together with dividend equivalents, paid in cash, of £47,144 (for Ian Mason) and £23,572 (for Simon Boddie).
4. During the year Ian Mason and Simon Boddie each received a cash supplement in lieu of pension which amounted to £173,748 and £167,958 for Ian Mason and Simon Boddie respectively (2013: £173,042 for Ian Mason and £167,275 for Simon Boddie).
5. Includes SAYE awards granted during the year. Simon Boddie was awarded 2,523 SAYE options on 2 July 2013; the value of SAYE options is the embedded gain at grant (i.e the 20% discount of the share price used at grant, multiplied by 2,523).

### Single figure for total remuneration for Non-Executive Directors (audited)

For the year under review, the Chairman's fee was £175,000 per annum. The Non-Executive Directors were each paid a fee of £45,000 per annum. In addition, Rupert Soames, as Chairman of the Remuneration Committee, and Paul Hollingworth, as Chairman of the Audit Committee, each received an additional fee of £10,000 per annum.

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 March 2014 and the prior year:

	Total fee 2014 £	2013 £
Peter Johnson <sup>1</sup>	<b>175,000</b>	95,416
Adrian Auer <sup>1</sup>	<b>45,000</b>	50,833
Karen Guerra	<b>45,000</b>	11,250
Paul Hollingworth	<b>55,000</b>	55,000
John Pattullo	<b>45,000</b>	11,250
Rupert Soames <sup>1</sup>	<b>55,000</b>	81,250

- During the year ended 31 March 2013, Peter Johnson, who had temporarily stepped down from his role of Chairman was paid a Non-Executive Director fee only from May 2012 until he resumed his role in November 2012. Rupert Soames' and Adrian Auer's fees were increased temporarily to £100,000 and £55,000 per annum, respectively. This reflected their increased responsibilities (Rupert Soames as Acting Chairman and Adrian Auer as Senior Independent Director and Chairman of the Remuneration Committee) during the same period.

### Incentive outcomes for the year ended 31 March 2014

#### Annual bonus in respect of 2014 performance (audited)

The performance measures attached to the 2014 annual bonus plan were sales growth (weighted 40%), PBTR (40%) and cash flow (20%). As in 2013, target performance was calibrated to deliver a bonus of 75% of salary for the Executive Directors, with bonus payments worth up to 150% of salary for achieving stretch performance targets.

Based on the Company's performance in 2014, against targets set at the start of the year for each performance measure, the Committee has decided to make an annual bonus award of 89.1% of base salary to each of the Executive Directors. Further details, including the targets set and performance against each of the metrics, are provided below:

Measure and weighting	Performance level	Payout (% of max. bonus)	Target (% of budget)	Actual performance (% of budget)	Earned bonus	
		(% of max.)	(% of salary)			
Sales growth (40% weighting)	Threshold	8%	97%	99.1%	16.3%	24.5%
	Maximum	40%	105%			
PBTR (40% weighting)	Threshold	8%	91%	102.4%	24.2%	36.4%
	Maximum	40%	111%			
Cash flow (20% weighting)	Threshold	0%	84%	113.9%	18.8%	28.2%
	Maximum	20%	116%			
				<b>Total</b>	<b>59.3%</b>	<b>89.1%</b>

One-third of the annual bonus award of 89.1% of base salary for each of Ian Mason and Simon Boddie, i.e. 29.7% of salary, or £171,888 and £114,593 for Ian Mason and Simon Boddie, respectively, will be deferred into shares under the DSBP. This DSBP award will vest on the second anniversary of grant, subject, normally, to continued employment.

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**ANNUAL REPORT ON REMUNERATION**

The table below sets out the actual bonuses paid in cash and deferred shares for each Executive Director for the year under review:

	<b>Annual cash bonus</b>		<b>Deferred shares</b> Value £	<b>Total</b> £
	<b>% of salary</b>	<b>£</b>		
Ian Mason	59.3%	343,776	171,888	515,664
Simon Boddie	59.3%	229,186	114,593	343,779

The deferred shares have not been awarded at the date of this Report. The number of deferred shares awarded, the date of award and the share price used will be disclosed in next year's Annual Report on Remuneration.

**2011 LTIP awards vesting**

In July 2011, LTIP awards of 201,480 and 100,740 shares were granted to Ian Mason and Simon Boddie respectively. Vesting of these awards was based 50% on Electrocomponents' EPS growth and 50% on Electrocomponents' relative TSR outperformance of the FTSE 250 index over the three financial years ended 31 March 2014. Based on performance over this period, the Committee anticipates that none of this award will vest. Performance targets, and actual performance against these, is summarised in the table below:

	<b>Electrocomponents' performance</b>	<b>Award vesting (% of LTIP award)</b>
<b>TSR % outperformance of FTSE 250 index</b>		
Threshold: Index TSR	Index – 22.4%	0%
Maximum: Index + 20%		
<b>Annualised three-year EPS growth</b>		
Threshold: 5% p.a.	– 3.2% p.a.	0%
Maximum: 10% p.a.		
TOTAL		0%

**Scheme interests awarded in 2014 (audited)**
**2013 DSBP**

During the year under review, the following DSBP awards were made to the Executive Directors (relating to the annual bonus earned for performance over the 2013 financial year):

	<b>Ian Mason</b>	<b>Simon Boddie</b>
Basis of award	One-third of earned bonus	One-third of earned bonus
Award date	21 June 2013	21 June 2013
Number of shares awarded	4,325	2,883
Award-date face value (247.7p per share)	£10,713	£7,141
Normal vesting date	21 June 2015	21 June 2015
Performance conditions	None	None

**2013 LTIP**

During the year under review, the following LTIP awards were awarded to the Executive Directors:

	<b>Ian Mason</b>	<b>Simon Boddie</b>
Basis of award	125% of base salary	90% of base salary
Award date	17 July 2013	17 July 2013
Number of shares awarded	283,235	135,954
Award-date face value (255.6p per share)	£723,949	£347,498
Normal vesting date	17 July 2016 or such earlier date as the performance condition is determined	17 July 2016 or such earlier date as the performance condition is determined
Performance period	1 April 2013 – 31 March 2016	1 April 2013 – 31 March 2016
Performance conditions	<ul style="list-style-type: none"> <li>• 3-year EPS growth – 50% of an award Threshold: 5% p.a. (0% of element vesting) Maximum: 10% p.a. (100% of element vesting)</li> <li>• 3-year relative TSR % outperformance of FTSE 250 Index – 50% of an award Threshold: Index TSR (0% of element vesting) Maximum: Index + 20% (100% of element vesting)</li> </ul>	
Threshold vesting outcome	0%	0%

**2013 SAYE**

During the year under review, the following SAYE awards were granted to the Executive Directors:

	<b>Simon Boddie</b>
Basis of award	Fixed £ savings contract
Number of options granted	2,523
Grant date	2 July 2013
Share price used for grant	266.83p
Exercise price	214p (20% discount to grant price)
Vesting date	1 September 2016
Expiration date	28 February 2017
Performance conditions	None
Threshold vesting outcome	n/a

Ian Mason did not enter into a savings contract under the SAYE in the year to 31 March 2014.

**Total pension entitlements (audited)**

The current Executive Directors are able to participate in the defined benefits section of the Electrocomponents Group Pension Scheme (Scheme). However, as their pension benefits are greater than or equal to the lifetime allowance, they elected to opt out of the pension scheme with effect from 5 April 2012, and receive a cash supplement in lieu of pension no greater than the cost of pension benefits previously provided. The single cash supplement, which replaced all historic cash supplements and pension benefits, will be paid until the earlier of (i) the date employment with the Company terminates and (ii) the date the Executive Director reaches age 60 (the normal retirement age). The Committee recognises that the level of pension contribution is above market norms for FTSE 250 companies of similar size. However, these levels of cash supplement reflect legacy defined benefit arrangements from which the Executive Directors opted out. The cash supplement rates for the current Executive Directors are summarised in the policy table on page 69, and the cash supplement paid during the year under review is captured in the single figure for total remuneration on page 80.

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The accrued defined benefit pensions of the Executive Directors at 31 March 2014 were as follows, including revaluation from the date they opted out of the Scheme:

Ian Mason: £55,568 p.a.

Simon Boddie: £29,042 p.a.

These pensions are payable from age 60 (their normal retirement age under the Scheme). If the Directors leave service before age 60, they may elect to start receiving their pension at any time between age 55 and age 60, in which case the pension will be actuarially reduced to reflect the longer period for which it is expected to be paid.

**Payments to past directors**

No payments were made to past directors during the year under review.

**Exit payments made in the year**

No exit payments to directors were made during the year under review.

**External appointments in the year**

During the financial year, Simon Boddie was a Non-Executive Director of PageGroup. The fee payable for this appointment is £58,000 per annum. Until the end of November 2013, Ian Mason was a Non-Executive Director at Sage Group plc, for which he received a fee of £60,000 per annum. During the year he received £40,000 in total. Both Executive Directors are permitted to retain the fees relating to these appointments.

**Percentage change in CEO remuneration**

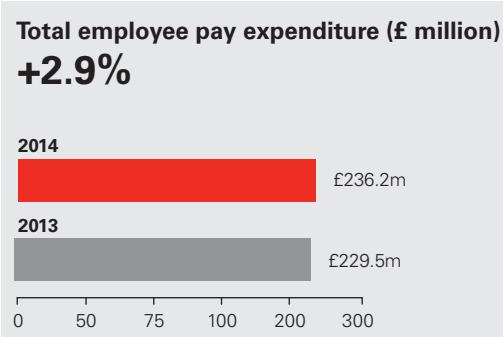
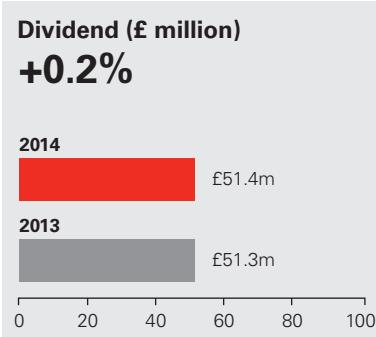
The table below shows the percentage change in the CEO annual cash remuneration (comprising base salary, the value of taxable benefits and earned annual bonus, as disclosed in the single figure of remuneration table on page 80) from the prior year compared with the average percentage change for the 320 members of our Global Management Team (GMT). This group is considered more representative of the geographical footprint of the Company than a UK comparator group, and similarity of remuneration structures facilitates a more meaningful comparison than considering all employees as a whole.

	CEO			GMT		
	Year ended 31 March 2014	Year ended 31 March 2013	Year ended 31 March 2012	% change 2013 – 2014	% change 2012 – 2013	% change 2013 – 2014
Base salary	579,160	576,805	551,070	0.4%	4.7%	2.8%
Taxable benefits	18,464	17,808	17,332	3.7%	2.7%	2.7%
Annual bonus <sup>1</sup>	515,664	32,144	238,593	1,504.2%	-86.5%	137.0%
<b>Total</b>	<b>1,113,288</b>	<b>626,757</b>	<b>806,995</b>	<b>77.63%</b>	<b>-22.3%</b>	<b>9.0%</b>
						-14.5%

1. The difference in percentage change in the CEO's annual bonus (and total cash remuneration) compared with that of other senior employees reflects differences in annual bonus design: the annual bonus for the CEO is based 100% on financial performance, whereas for the GMT it comprises an element based on personal performance and contribution.

**Relative importance of spend on pay**

The graphs below show Electrocomponents' shareholder distributions (i.e. dividends) and expenditure on total employee pay for the year under review and the prior year, and the percentage change year on year.

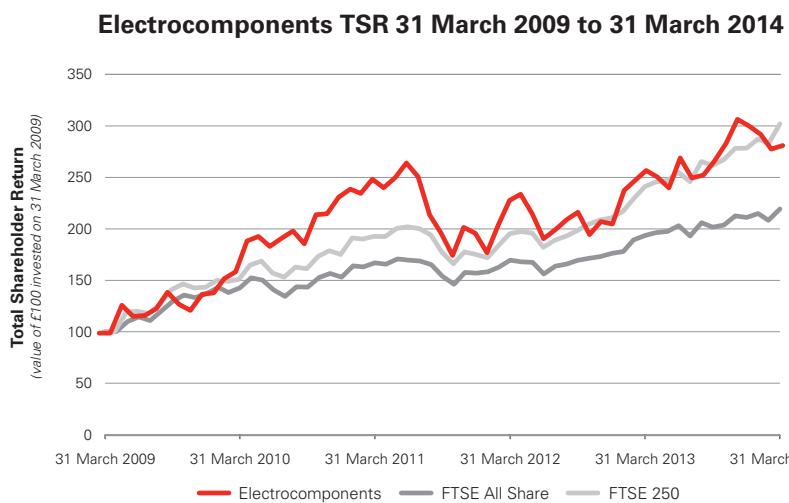


## Performance graph and table

The following graph shows the five-year TSR performance of the Company relative to the FTSE All Share and the FTSE 250 Indices. The FTSE All Share is a broad equity market index of which Electrocomponents is a member, and the Company is measuring its TSR performance versus the FTSE 250 for the purposes of the LTIP and has therefore included this as a relevant index. The table below details the Group Chief Executive's single figure of remuneration over the same period.

### Total Shareholder Return (TSR)

(Value of £100 invested on 31 March 2009)



	Year ended 31 March 2010	Year ended 31 March 2011	Year ended 31 March 2012	Year ended 31 March 2013	Year ended 31 March 2014
CEO single figure of remuneration (£'000)					
Ian Mason total remuneration	£1,472	£1,862	£1,176	£1,223	<b>£1,287</b>
Annual bonus award (as a % of maximum opportunity)	74.1%	100.0%	28.2%	3.7%	<b>89.1%</b>
LTIP vesting (as a % of maximum opportunity)	21.4%	50.0%	20.5%	55.5%	<b>0%</b>

### Implementation of Executive Director remuneration policy for 2015

#### Base salary

Base salaries are reviewed taking into account individual performance and competitive practice for similar roles in the Company's remuneration peer group. Salaries were reviewed in early 2014 against a remuneration comparator group comprising UK-based FTSE 250 companies:

- With a majority of their revenues outside the UK
- In sectors such as support services, distribution and manufacturing and other similar classifications, but not financial services
- Of similar size in terms of revenue, number of employees and market capitalisation

This review identified that the current Executive Directors' base salaries remain above the chosen benchmark. It is the Committee's policy to align Executive Director base salaries with the market over time, and therefore the Committee approved the following base salary increases with effect from 1 June 2014:

Executive Director	Base salary from 1 June 2013	Base salary from 1 June 2014	Percentage increase
Ian Mason	£579,160	<b>£590,000</b>	1.9%
Simon Boddie	£386,110	<b>£393,832</b>	2.0%

A salary increase averaging 2% across the Group was awarded at the annual pay review, effective 1 June 2014.

**Pension**

For 2015, Executive Directors will continue to receive a cash supplement in lieu of pension worth 30% of salary for Ian Mason and 43.5% of salary for Simon Boddie.

**Performance related annual bonus**

The annual bonus opportunity for Executive Directors will remain unchanged for the 2015 financial year. The bonus outcome for Executive Directors will continue to be based 40% on Group PBTR, 40% on Group sales growth and 20% on Group cash flow. One-third of any bonus earned will be deferred into shares for a further two years under the DSBP. Annual bonus targets are considered to be commercially sensitive but will be disclosed retrospectively in next year's Annual Report on Remuneration.

**LTIP**

The structure of LTIP awards to be made in the 2015 financial year will be unchanged from 2014. Awards will continue to vest 50% on three-year EPS growth and three-year relative TSR percentage outperformance of the FTSE 250 index (performance targets remain unchanged and are as set out on page 83). Awards with face values of £579,160 and £308,888 will be granted to Ian Mason and Simon Boddie respectively. Details of these awards will be disclosed in next year's Annual Report on Remuneration.

**SAYE**

Executive Directors will be able to participate in any SAYE contract offered to all employees, on identical terms.

**Implementation of Non-Executive Director remuneration policy for 2015**

For the year ending 31 March 2015, Non-Executive Director fees have been increased. The Chairman will now receive £180,000 per annum and the Non-Executive Director fee has been increased to £50,000 per annum. The Chairman of each of the Audit and Remuneration Committees will continue to receive an additional £10,000 per annum in respect of their additional responsibilities. From 1 August 2014, the Senior Independent Director will receive an additional £5,000 per annum for the additional responsibilities of that position.

Non-Executive Director fees will next be reviewed in March 2016.

**Director shareholdings (audited)**

The table below shows the shareholdings of the Executive Directors and their connected persons and whether they had met their respective shareholding requirements at 31 March 2014:

	Shares held			Options held			Shareholding guideline % salary	Current holding % salary	Guideline met?
	Owned outright <sup>1</sup> or vested (A)	Performance tested but unvested (B)	Unvested, subject to performance (C)	Vested but not exercised (D)	Unvested, but not subject to performance (E)				
Ian Mason	420,996	—	804,134	—	10,436	200%	196%	No	
Simon Boddie	267,313	—	403,477	—	4,059	100%	187%	Yes	

1. By Directors and their connected persons.

The value of the shares used to calculate whether the shareholding guideline is met is 269.68p, being the average share price over the three months to 31 March 2014. Details of the scheme interests contained in columns B-E are provided in the tables on page 87.

The interests of the Chairman and Non-Executive Directors and their connected persons in the Company's ordinary shares are shown below. Up to the date of this Report, there have been no changes in the Directors' interests.

	31 March 2014 or date ceased to be a Director	1 April 2013 or date appointed as a Director
Adrian Auer	2,500	2,500
Karen Guerra	7,525	7,525
Paul Hollingworth	10,000	10,000
Peter Johnson	100,000	100,000
John Pattullo	10,000	10,000
Rupert Soames	15,024	15,024

**Directors' share scheme interests (audited)****Share awards**

Notes	Scheme	Date of Award	Shares awarded at	Shares awarded in 2014	Vested in 2014	Lapsed in 2014	Shares awarded at	Vesting date
			1 April 2013				31 March 2014	
Ian Mason	LTIP	30-Jun-10 <sup>2</sup>	248,009	—	137,644	110,365	—	30-May-13
		5-Jul-11	201,480	—	—	—	201,480	5-Jul-14 <sup>5</sup>
		3-Jul-12	276,975	—	—	—	276,975	3-Jul-15 <sup>5</sup>
		17-Jul-13	—	283,235	—	—	283,235	17-Jul-16 <sup>5</sup>
	DSBP	5-Jul-11 <sup>4</sup>	100,483	—	100,483	—	—	5-Jul-13
		3-Jul-12	38,119	—	—	—	38,119	3-Jul-14
		21-Jun-13	—	4,325	—	—	4,325	21-Jun-15
			<b>Total</b>	<b>865,066</b>	<b>287,560</b>	<b>238,127</b>	<b>110,365</b>	<b>804,134</b>
Simon Boddie	LTIP	30-Jun-10 <sup>2</sup>	124,005	—	68,822	55,183	—	30-May-13
		5-Jul-11	100,740	—	—	—	100,740	5-Jul-14 <sup>5</sup>
		3-Jul-12	138,488	—	—	—	138,488	3-Jul-15 <sup>5</sup>
		17-Jul-13	—	135,954	—	—	135,954	17-Jul-16 <sup>5</sup>
	DSBP	5-Jul-11 <sup>4</sup>	66,989	—	66,989	—	—	5-Jul-13
		3-Jul-12	25,412	—	—	—	25,412	3-Jul-14
		21-Jun-13	—	2,883	—	—	2,883	21-Jun-15
			<b>Total</b>	<b>455,634</b>	<b>138,837</b>	<b>135,811</b>	<b>55,183</b>	<b>403,477</b>

- All outstanding awards made under the LTIP are subject to the same performance conditions set out on page 83.
- On 30 May 2013, the Committee determined that 55.5% of the Award made under the LTIP in June 2010 should vest in accordance with the performance condition based on the Company's TSR and EPS as described on page 82 of this report. The Committee was satisfied that there had been sustained improvement in the Company's underlying financial performance during the performance period. In addition, cash dividend entitlements of £47,143 and £23,572 were paid at vesting to Ian Mason and Simon Boddie respectively.
- Outstanding DSBP awards are subject to the terms set out on page 81.
- On 5 July 2013, the Award made under the DSBP in July 2011 vested in full. There are no performance conditions but vesting is dependent, normally, on continuing employment with the Group. Cash dividend entitlements of £23,614 and £15,742 were paid at vesting to Ian Mason and Simon Boddie respectively.
- The vesting date for the LTIP is the third anniversary of grant or such earlier date as the performance conditions are determined.

**Share options**

	Scheme	Date of grant	Vesting date	Expiration date	Exercise price	Shares under option	Granted in 2014	Exercised in 2014	Lapsed in 2014	Shares under option
						1 April 2013				31 March 2014
Ian Mason	SAYE	01-Jul-09	01-Sep-14	28-Feb-15	149.00p	10,436	—	—	—	10,436
						<b>Total</b>	<b>10,436</b>	<b>—</b>	<b>—</b>	<b>10,436</b>
Simon Boddie	SAYE	30-Jun-10	01-Sep-13	28-Feb-14	175.00p	3,085	—	3,085	—	—
		29-Jun-11	01-Sep-14	28-Feb-15	235.00p	1,536	—	—	—	1,536
		17-Jul-13	01-Sep-16	28-Feb-17	214.00p	—	2,523	—	—	2,523
						<b>Total</b>	<b>4,621</b>	<b>2,523</b>	<b>3,085</b>	<b>—</b>
										<b>4,059</b>

# Additional Information

**Set out below is a summary of certain provisions of the Company's current Articles of Association (Articles) and applicable English law concerning companies, the Companies Act 2006 (Companies Act). This is a summary only and the relevant provisions of the Articles or the Companies Act should be consulted if further information is required.**

## **Dividends and distributions**

Subject to the provisions of the Companies Act, the Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Board. The Board may pay interim dividends whenever the financial position of the Company, in the opinion of the Board, justifies such payment. The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25% interest (as defined in the Articles) if such a person has been served with a notice after failure to provide the Company with information concerning interest in those shares required to be provided under the Companies Act.

## **Voting rights**

Subject to any special rights or restrictions attaching to any class of shares, at a general meeting, every member present in person and every duly appointed proxy has, upon a show of hands, one vote and on a poll every member who is present in person or by proxy has one vote for each share. In the case of joint holders of a share the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members in respect of the shares.

## **Restrictions on voting**

No member shall be entitled to vote either in person or by proxy at any general meeting or class meeting in respect of any shares held by him if any call or other sum then payable by him in respect of that share remains unpaid. In addition no member shall be entitled to vote if he has been served with a notice after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

## **Deadlines for exercising voting rights**

Voting rights may be exercised in person, by proxy, or in relation to corporate members, by corporate representative. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

## **Variation of rights**

Subject to the relevant law, the Articles specify that rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

## **Transfer of shares**

All transfers of shares may be effected by transfer in writing in any usual or common form or in any other form acceptable to the Directors. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. Transfers of shares which are in uncertificated form are effected by means of the CREST system.

The Directors may, in the case of shares in certificated form, in their absolute discretion and without assigning any reason, refuse to register any transfer of shares (not being fully paid shares) provided that such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis.

The Directors may also refuse to register an allotment or transfer of shares (whether fully-paid or not) in favour of more than four persons jointly. If the Directors refuse to register an allotment or transfer they shall within two months after the date on which the letter of allotment or transfer was lodged with the Company send to the allottee or transferee a notice of the refusal.

Subject to statutes and applicable CREST rules, the Directors may determine that any class of shares may be held in uncertificated form and that title to such shares may be transferred by means of the CREST system or that shares of any class should cease to be so held and transferred.

A shareholder does not need to obtain the approval of the Company, or of other shareholders of shares in the Company, for a transfer of shares to take place.

## Appointment and replacement of Directors

Directors shall be no less than three and no more than twelve in number. A Director is not required to hold any shares of the Company by way of qualification. The Company may by ordinary resolution increase or reduce the maximum or minimum number of Directors.

Any Director who was elected or last re-elected a Director at or before the AGM held in the third calendar year before the current calendar year shall retire by rotation. In addition, each Director, (other than the Chairman and any Director holding an executive office) shall retire at each AGM following the ninth anniversary of the date on which he was elected. A retiring Director is eligible for re-election.

The Board may appoint any person to be a Director (so long as the total number of Directors does not exceed the limit prescribed in the Articles). Any such Director shall hold office only until the next AGM and shall then be eligible for re-election.

## Powers of the Directors

Subject to the Articles, the Companies Act and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company.

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge any of its undertaking, property and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

## Significant agreements: change of control

All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

## Amendment of Articles of Association

Any amendments to the Articles of the Company may be made in accordance with the provisions of the Companies Act by way of special resolution.

By order of the Board

### Ian Haslegrave

General Counsel and Company Secretary  
22 May 2014

# **Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements**

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company 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
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Responsibility Statement of Directors in respect of the Annual Report and the financial statements**

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

**Ian Mason**

Group Chief Executive  
22 May 2014

**Simon Boddie**

Group Finance Director

The report and accounts contain certain statements, statistics and projections that are or may be forward-looking. The accuracy and completeness of all such statements including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Electrocomponents plc and its subsidiaries is not warranted or guaranteed. These statements typically contain words such as 'intends', 'expects', 'anticipates', 'estimates' and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although Electrocomponents plc believes that the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct. There are a number of factors, which may be beyond the control of Electrocomponents plc, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Other than as required by applicable law or the applicable rules of any exchange on which our securities may be listed, Electrocomponents plc has no intention or obligation to update forward-looking statements contained herein.

**Strategy in Action**

# Driving performance in Europe through eCommerce

## eCommerce with a Human Touch



**An 8% increase in eCommerce revenues in Continental Europe during 2014 has driven online business from the region's 17 local language websites to nearly 70% of sales.**

eCommerce has transformed the way we do business. We have successfully transitioned from a catalogue-led product offer to an e-centric, multichannel B2B business model whilst retaining a consistent service for customers.

Providing a cost-effective entry into new markets, such as in Eastern Europe, eCommerce offers benefits of scale to the business. It is also a competitive advantage enabling us to make market share gains from smaller competitors.

eCommerce is now the entry point for long-term customer relationships, with our catalogue, sales and customer support teams providing direction to and supporting our online offer.

eCommerce is also driving market-leading customer satisfaction. Our customers prefer to shop online because it provides superior content and value-added services, such as DesignSpark, Live Chat and eProcurement solutions for large

customers. In fact, eProcurement sales growth has increased by 15% in Europe over the past year.

For us, eCommerce means growth in sales and customers, whilst reducing costs. We can 'see' and capture demand through the internet, and analyse it to tailor and target other forms of marketing to specific customers. We can manage our customer base more profitably, whilst more merchandise provides us with more opportunities to cross- and up-sell.

eCommerce also allows us to better manage the customer life cycle, driving customer acquisition and development, supported by a highly skilled sales force; that's what we call eCommerce with a Human Touch.



See page 14 for **Group Chief Executive's Review**



Watch the videos online  
[www.electrocomponents.com](http://www.electrocomponents.com)



Our Business

Our Performance

Corporate Governance

Financial Statements

Shareholder Information

# Independent Auditor's Report to the members of Electrocomponents plc only

## Opinions and conclusions arising from our audit

### 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Electrocomponents plc for the year ended 31 March 2014 set out on pages 96 to 145. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

#### Inventory valuation (£286.4 million gross inventories and £27.6 million provisions)

Refer to page 60 (Audit Committee Report – Significant accounting issues and areas of judgement) and page 121 (note 17 to the financial statements).

**The risk** – The Group holds significant quantities of a diverse product range for a significant period with different products being in different phases of their lifecycles. There is a risk that some of this inventory will not be sold and the Group performs an estimate of the value of the provision required. The key judgements relate to the duration of product lifecycles, amount of anticipated sales over this lifecycle and the value recoverable from any excess stock.

**Our response** – In this area, our audit procedures included, among other things, assessing the appropriateness of the provisioning policy applied by management and challenging the key assumptions in the calculation including inventory lifecycles, expected future sales levels and recoverable value, corroborating assumptions against external evidence where relevant. We utilised our own modelling specialists to recalculate the provision and assess the methodology, and corroborated the source data used against the accounting records.

## Taxation (£29.6 million income statement charge)

Refer to page 61 (Audit Committee Report – Significant accounting issues and areas of judgement) and page 114 (note 9 to the consolidated financial statements).

**The risk** – Accruals for tax contingencies require the Directors to make judgements and estimates in relation to tax issues and exposures. This is one of the key judgemental areas that our audit is focused on due to the Group operating in a number of tax jurisdictions, the complexities of transfer pricing regulations and other international tax legislation and the time taken for tax matters to be agreed with the relevant authorities.

**Our response** – In this area our audit procedures included, among others, the use of our own international and local tax specialists to assess the Group's tax positions, its correspondence with the relevant tax authorities and to analyse and challenge the assumptions used to determine tax provisions based on our knowledge and experiences of the application of the international and local legislation by the relevant authorities and courts. We have also considered the adequacy of the Group's disclosures in respect of tax and uncertain tax positions.

### 3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £6.0 million. This has been determined with reference to a benchmark of Group profit before taxation (of which it represents 5.9%), which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.3 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component auditors at the key reporting components in the following countries: United Kingdom (1 component), Continental Europe (8 components), North America (1 component) and Asia Pacific (9 components). In addition, specified audit procedures were performed by component auditors in Japan. These Group procedures covered 98% of total Group revenue; 99% of Group profit before taxation; and 99% of total Group assets. The segment disclosures in note 3 set out the individual significance of specific regions.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the Group audit team. These materiality levels were set individually for each component and ranged from £10,000 to £4.0 million.

Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. The Group audit team is also the auditor of the UK component. Telephone meetings were held with the auditors in North America, France, Germany and Italy, and where necessary with the other components' auditors.

#### **4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 48 to 57 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

#### **5. We have nothing to report in respect of the matters on which we are required to report by exception**

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.
- Under the Listing Rules we are required to review:
- the Directors' Statement, set out on page 55, in relation to going concern; and
- the part of the Corporate Governance Statement on page 52 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

#### **Scope of report and responsibilities**

As explained more fully in the Directors' Responsibilities Statement set out on page 90, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2013a](http://www.kpmg.com/uk/auditscopeukco2013a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Paul Sawdon** (Senior Statutory Auditor)  
for and on behalf of KPMG Audit plc, Statutory Auditor

Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
22 May 2014

# Group Income Statement

For the year ended 31 March 2014

	Notes	2014 £m	2013 as restated* £m
<b>Revenue</b>	2,3	<b>1,273.1</b>	1,235.6
Cost of sales		(689.2)	(667.2)
<b>Gross profit</b>		<b>583.9</b>	568.4
Distribution and marketing expenses		(466.1)	(466.4)
Administrative expenses		(11.7)	(9.7)
<b>Operating profit</b>		<b>106.1</b>	92.3
Financial income	2	<b>2.5</b>	2.8
Financial expense	2	(7.5)	(8.4)
<b>Profit before tax</b>	2,3,4	<b>101.1</b>	86.7
Income tax expense	9	(29.6)	(27.3)
<b>Profit for the year attributable to the equity shareholders of the Parent Company</b>		<b>71.5</b>	59.4
<b>Earnings per share</b>			
Basic	11	<b>16.3p</b>	13.6p
Diluted	11	<b>16.2p</b>	13.5p
<b>Dividends</b>			
<b>Amounts recognised in the period:</b>			
Final dividend for the year ended 31 March 2013	10	<b>6.75p</b>	6.75p
Interim dividend for the year ended 31 March 2014	10	<b>5.0p</b>	5.0p
		<b>11.75p</b>	11.75p

A final dividend of 6.75p per share relating to the year has been proposed since the year end.

The notes on pages 101 to 136 form part of these Group accounts.

<b>Headline profit before tax</b>			
Profit before tax		<b>101.1</b>	86.7
Reorganisation costs	5	—	7.4
		<b>101.1</b>	94.1
<b>Headline earnings per share</b>			
Basic	11	<b>16.3p</b>	14.9p
Diluted	11	<b>16.2p</b>	14.8p

\* Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102.

# Consolidated Statement of Comprehensive Income

For the year ended 31 March 2014

	Notes	2014 £m	2013 as restated* £m
<b>Profit for the year</b>		<b>71.5</b>	59.4
<b>Other comprehensive income</b>			
<b>Items that are not reclassified subsequently to the income statement</b>			
Remeasurement of pension deficit	8	(20.2)	(21.5)
Movement in unrecognised pension surplus		—	11.9
Taxation relating to remeasurement of pension deficit		3.5	1.7
<b>Items that are reclassified subsequently to the income statement</b>			
Foreign exchange translation differences		(22.4)	11.5
Net gain (loss) on cash flow hedges		1.7	(0.7)
Taxation relating to components of other comprehensive income		(0.7)	1.4
<b>Other comprehensive (expense) income for the year</b>		<b>(38.1)</b>	4.3
<b>Total comprehensive income for the year</b>		<b>33.4</b>	63.7

\*Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102.

The notes on pages 101 to 136 form part of these Group accounts.

# Group Balance Sheet

As at 31 March 2014

Company number: 647788

	Notes	2014 £m	2013 £m
<b>Non-current assets</b>			
Intangible assets	12	<b>219.8</b>	223.5
Property, plant and equipment	13	<b>104.6</b>	112.1
Investments	15	<b>0.4</b>	0.6
Other receivables	18	<b>5.3</b>	7.1
Other financial assets	21	<b>3.7</b>	11.8
Deferred tax assets	22	<b>8.9</b>	6.4
		<b>342.7</b>	361.5
<b>Current assets</b>			
Inventories	17	<b>258.8</b>	261.9
Trade and other receivables	18	<b>214.8</b>	221.1
Income tax receivables		<b>8.3</b>	5.9
Cash and cash equivalents	26	<b>0.7</b>	9.3
		<b>482.6</b>	498.2
<b>Current liabilities</b>			
Trade and other payables	19	<b>(185.4)</b>	(194.8)
Provisions and other liabilities	5	—	(0.6)
Loans and borrowings	20	<b>(15.8)</b>	(10.7)
Other financial liabilities	20	<b>(0.7)</b>	(1.4)
Income tax liabilities		<b>(15.5)</b>	(13.9)
		<b>(217.4)</b>	(221.4)
<b>Net current assets</b>		<b>265.2</b>	276.8
<b>Total assets less current liabilities</b>		<b>607.9</b>	638.3
<b>Non-current liabilities</b>			
Other payables	19	<b>(11.8)</b>	(11.8)
Retirement benefit obligations	8	<b>(40.9)</b>	(19.0)
Loans and borrowings	20	<b>(131.4)</b>	(168.0)
Other financial liabilities	20	<b>(0.1)</b>	(0.7)
Deferred tax liabilities	22	<b>(59.4)</b>	(59.2)
		<b>(243.6)</b>	(258.7)
<b>Net assets</b>		<b>364.3</b>	379.6
<b>Equity</b>			
Called-up share capital	25	<b>44.0</b>	43.8
Share premium account		<b>41.5</b>	40.3
Retained earnings		<b>268.2</b>	263.9
Cumulative translation reserve		<b>10.4</b>	32.8
Other reserves		<b>0.2</b>	(1.2)
<b>Equity attributable to the equity shareholders of the Parent Company</b>		<b>364.3</b>	379.6

These Group accounts were approved by the Board of Directors on 22 May 2014 and signed on its behalf by:

**Simon Boddie**

Group Finance Director

The notes on pages 101 to 136 form part of these Group accounts.

# Group Cash Flow Statement

For the year ended 31 March 2014

	2014 £m	2013 as restated* £m
<b>Cash flows from operating activities</b>		
Profit before tax	2,3	101.1
Depreciation and other amortisation		28.1
Loss of disposal of non-current assets		1.2
Equity-settled transactions		1.5
Finance income and expense		5.0
Non-cash movement on investment in associate		0.2
<b>Operating cash flow before changes in working capital, interest and taxes</b>	<b>137.1</b>	120.2
(Increase) decrease in inventories	(9.8)	1.4
(Increase) decrease in trade and other receivables	(1.1)	3.0
Decrease in trade and other payables	(2.8)	(17.3)
Increase in provisions	5	(0.6)
<b>Cash generated from operations</b>	<b>122.8</b>	107.9
Interest received	2.5	2.8
Interest paid	(7.5)	(8.4)
Income tax paid	(24.5)	(25.6)
<b>Net cash from operating activities</b>	<b>93.3</b>	76.7
<b>Cash flows from investing activities</b>		
Capital expenditure	(35.7)	(28.7)
Proceeds from sale of property, plant and equipment	0.1	1.3
<b>Net cash used in investing activities</b>	<b>(35.6)</b>	(27.4)
<b>Free cash flow</b>	<b>57.7</b>	49.3
<b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital	1.4	0.6
Purchase of own shares	(0.6)	(0.5)
Loans repaid	(23.3)	(18.2)
Dividends from vested share options	—	(0.7)
Equity dividends paid	10	(51.4)
<b>Net cash used in financing activities</b>	<b>(73.9)</b>	(70.1)
<b>Net increase in cash and cash equivalents</b>	<b>(16.2)</b>	(20.8)
Cash and cash equivalents at the beginning of the year	(1.4)	18.6
Effect of exchange rate fluctuation on cash	2.5	0.8
<b>Cash and cash equivalents at the end of the year</b>	<b>26</b>	(15.1)

\* Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102.

The notes on pages 101 to 136 form part of these Group accounts.

	2014 £m	2013 £m
Headline free cash flow		
Free cash flow	57.7	49.3
Reorganisation costs	5	0.6
		6.8
		58.3
		56.1

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2014

	Other Reserves						Total £m
	Share capital £m	Share premium £m	Hedging reserve £m	Own shares held £m	Cumulative translation £m	Retained earnings £m	
<b>At 1 April 2013</b>	<b>43.8</b>	<b>40.3</b>	<b>(0.1)</b>	<b>(1.1)</b>	<b>32.8</b>	<b>263.9</b>	<b>379.6</b>
Profit for the year	—	—	—	—	—	71.5	71.5
Foreign exchange translation differences	—	—	—	—	(22.4)	—	(22.4)
Remeasurement of pension deficit	—	—	—	—	—	(20.2)	(20.2)
Net gain on cash flow hedges (see note 21)	—	—	1.7	—	—	—	1.7
Taxation relating to components of other comprehensive income	—	—	(0.7)	—	—	3.5	2.8
<b>Total comprehensive income</b>	—	—	1.0	—	(22.4)	54.8	33.4
Equity-settled transactions	—	—	—	—	—	1.5	1.5
Dividends paid	—	—	—	—	—	(51.4)	(51.4)
Shares allotted in respect of share awards	0.2	1.2	—	1.0	—	(1.1)	1.3
Own shares acquired	—	—	—	(0.6)	—	—	(0.6)
Related tax movements	—	—	—	—	—	0.5	0.5
<b>At 31 March 2014</b>	<b>44.0</b>	<b>41.5</b>	<b>0.9</b>	<b>(0.7)</b>	<b>10.4</b>	<b>268.2</b>	<b>364.3</b>

	Other						Total £m
	Share capital £m	Share premium £m	Hedging reserve £m	Own shares held £m	Cumulative translation £m	Retained earnings as restated* £m	
<b>At 1 April 2012</b>	<b>43.7</b>	<b>39.8</b>	<b>0.2</b>	<b>(1.9)</b>	<b>20.3</b>	<b>263.9</b>	<b>366.0</b>
Profit for the year	—	—	—	—	—	59.4	59.4
Foreign exchange translation differences	—	—	—	—	11.5	—	11.5
Remeasurement of pension deficit	—	—	—	—	—	(21.5)	(21.5)
Movement in unrecognised pension surplus	—	—	—	—	—	11.9	11.9
Net loss on cash flow hedges (see note 21)	—	—	(0.7)	—	—	—	(0.7)
Taxation relating to components of other comprehensive income	—	—	0.4	—	1.0	1.7	3.1
<b>Total comprehensive income</b>	—	—	(0.3)	—	12.5	51.5	63.7
Equity-settled transactions	—	—	—	—	—	2.0	2.0
Dividends paid	—	—	—	—	—	(51.3)	(51.3)
Shares allotted in respect of share awards	0.1	0.5	—	1.3	—	(1.7)	0.2
Own shares acquired	—	—	—	(0.5)	—	—	(0.5)
Related tax movements	—	—	—	—	—	(0.5)	(0.5)
<b>At 31 March 2013</b>	<b>43.8</b>	<b>40.3</b>	<b>(0.1)</b>	<b>(1.1)</b>	<b>32.8</b>	<b>263.9</b>	<b>379.6</b>

\*Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102.

The notes on pages 101 to 136 form part of these Group accounts.

# Notes to the Group Accounts

For the year ended 31 March 2014

## 1 Basis of preparation

### Basis of consolidation

Electrocomponents plc (the 'Company') is a company domiciled in England. The Group Accounts for the year ended 31 March 2014 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 significant 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 138 to 139.

The accounts were authorised for issue by the Directors on 22 May 2014.

### Basis of preparation

The accounts are presented in £ Sterling and rounded to £0.1 million.

They are prepared on a going concern basis, (as referred to in the Directors' Report on page 55), 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 2014 were in relation to pensions (note 8), taxation (note 9), goodwill (note 12) and inventories (note 17). Further details on the application of these judgements can be found in the relevant notes.

### Statement of compliance

The Group Accounts have been prepared in accordance with IFRS as adopted for use by the EU.

### 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.

### 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.

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## 1 Basis of preparation continued

### Changes in accounting policies

The following standards and interpretations have been enacted, and have an impact on these accounts:

#### IAS 19 (revised 2011) Employee Benefits

The Group recognises all costs relating to the pension scheme within distribution and marketing costs in the income statement.

With effect from 1 April 2013, the Group has adopted the following new standard and amendment to an existing standard, which has been applied retrospectively. IAS 19 (revised 2011) Employee Benefits, replaces interest cost and expected return on plan assets with a net pension cost on the pension deficit.

The defined benefit pension cost is calculated using the rate currently used to discount defined benefit pension liabilities. The discount rate is lower than the expected return on plan assets, increasing operating costs in the income statement and correspondingly reducing remeasurements recognised in other comprehensive income.

For the year to 31 March 2013, the impact has been to increase the net pension cost by £4.6 million, to reduce profit before tax by £4.6 million and reduce profit after tax by £3.5 million. This has resulted in a reduction in basic EPS of 0.8p. The actuarial loss on pension schemes has been reduced by £4.6 million and the income tax credit on other comprehensive income has been reduced by £1.1 million. The net pension deficit is unchanged. For the year to 31 March 2014, the impact has been to increase the net pension cost by £4.4 million, to reduce profit before tax by £4.4 million and profit after tax by £3.5 million. This has resulted in a reduction in basic EPS of 0.8p.

#### IAS 1 Presentation of Financial Statements

The Group has also adopted the amendment to IAS1 Presentation of Items of Other Comprehensive Income, which is effective for the first time in the current financial year. The adoption of the amendment has no impact on the Group's consolidated results of financial position.

#### IFRS 13 Fair Value Measurement

The Group has also adopted IFRS 13 Fair Value Measurement which is effective for the first time in the current financial year. IFRS 13 specifically requires additional disclosures for financial instruments which the Group has provided in note 21. The change has no impact on the measurements of the Group's assets and liabilities.

#### IFRS 7 Financial Instruments: Disclosures

The Group has also adopted the changes to IFRS 7 Financial Instruments: Disclosures which is effective for the first time

in the current financial year. IFRS 7 specifically requires additional disclosures in relation to offsetting cash pooling arrangements which the Group has provided in note 21. The change has no impact on the measurements of the Group's assets and liabilities.

The following standards and interpretations have been issued but not yet applied:

#### IFRS 9 Financial Instruments

This standard was originally issued in November 2009 to review and replace IAS 39 'Financial Instruments: Recognition and Measurement'. In October 2010 the IASB issued an amended version. The standard will be applicable for annual periods beginning on or after 1 January 2018. The effect on the Group is still being evaluated.

#### IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities

These standards were endorsed in December 2012 and will be effective for periods beginning on or after 1 January 2014. These will replace the existing accounting standards for subsidiaries and joint ventures. This will not affect the reported results or net assets of the Group.

The Group does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

## 2 Analysis of income and expenditure

### Adjusted measures

Profit measures such as operating profit, profit before tax and earnings per share are also presented as being headline results before reorganisation items. 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 '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.

## 2 Analysis of income and expenditure continued

### Customer loyalty schemes

The cost of loyalty schemes is treated as a deduction from sales and part of the fair value of the consideration received is deferred and subsequently recognised over the period that the awards are redeemed. The fair value of the points awarded is determined with reference to the fair value to the customer and takes into account factors such as the redemption rate.

### Operating expense classification

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

Distribution and marketing expenses within contribution comprise local costs relating to the selling, marketing and distribution of the Group's products, and are attributable to the region to which they relate.

Distribution and marketing expenses within Process costs principally comprise our teams that manage Groupwide Marketing, Offer and IT activities. These Processes have responsibility for the identification, introduction and sourcing of the Group's products, managing supplier relationships, developing the Group's global marketing strategy and its implementation, managing the Group's stock and overseeing the Group's worldwide IT infrastructure.

This analysis reconciles the Income Statement presentation to the segmental reporting shown in note 3.

	2014	as restated*	2013
	£m	£m	£m
Revenue	<b>1,273.1</b>	1,235.6	
Cost of sales	<b>(689.2)</b>	(667.2)	
Distribution and marketing expenses within contribution	<b>(326.0)</b>	(327.4)	
Headline contribution before Process costs	<b>257.9</b>	241.0	
Distribution and marketing expenses within Process costs	<b>(140.1)</b>	(131.6)	
Administrative expenses within Process costs	<b>(11.7)</b>	(9.7)	
Process costs	<b>(151.8)</b>	(141.3)	
Headline operating profit	<b>106.1</b>	99.7	
Bank interest receivable	<b>2.5</b>	2.8	
Bank interest payable	<b>(2.9)</b>	(3.8)	
Private placement note interest payable	<b>(4.6)</b>	(4.6)	
Net financial expense	<b>(5.0)</b>	(5.6)	
Headline profit before tax	<b>101.1</b>	94.1	
Reorganisation costs	<b>—</b>	(7.4)	
Profit before tax	<b>101.1</b>	86.7	

\* Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## **3 Segmental reporting**

In accordance with IFRS 8 Operating Segments, Group management has identified its operating segments. The performance of these operating segments is reviewed, on a monthly basis, by the Group Executive Committee.

These operating segments are: the UK, Continental Europe, North America and Asia Pacific. The UK comprises operations in the UK and exports to distributors where the Group does not have a local operating company. Continental Europe comprises operations in France, Germany, Italy, Austria, Denmark, Norway, Sweden, the Republic of Ireland, Spain, Switzerland, the Netherlands, Belgium, Poland, Hungary and the Czech Republic. North America comprises operations in the United States of America and Canada. Asia Pacific comprises operations in Japan, Australia, New Zealand, Singapore, Malaysia, Philippines, Thailand, Hong Kong, Taiwan, People's Republic of China, South Korea, Chile and South Africa.

Each reporting segment derives its revenue from the high service level distribution of semi-conductors, interconnect, passives and electromechanical products, automation and control and other maintenance products.

Intersegment pricing is determined on an arm's length basis, comprising sales of product at cost and a handling charge included within distribution and marketing expenses.

	<b>2014</b> £m	2013 £m
<b>Revenue from external customers</b>		
UK	<b>374.3</b>	375.1
Continental Europe	<b>460.6</b>	426.2
North America	<b>281.3</b>	268.6
Asia Pacific	<b>156.9</b>	165.7
	<b>1,273.1</b>	1,235.6
		2013
	<b>2014</b>	as restated*
	<b>£m</b>	£m
<b>Contribution</b>		
UK	<b>107.5</b>	103.2
Continental Europe	<b>99.4</b>	90.9
North America	<b>39.1</b>	34.9
Asia Pacific	<b>11.9</b>	12.0
	<b>257.9</b>	241.0
<b>Reconciliation of headline contribution to profit before tax</b>		
Headline contribution	<b>257.9</b>	241.0
Group Process costs	<b>(151.8)</b>	(141.3)
Reorganisation costs	<b>—</b>	(7.4)
Net financial expense	<b>(5.0)</b>	(5.6)
Profit before tax	<b>101.1</b>	86.7

\* Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102

### 3 Segmental reporting continued

Net financial expenses, one-off costs and income tax are not included or reviewed as a measure of performance of a reportable segment, but as total costs to the Group. Therefore no segmental information has been provided.

	2014 £m	2013 £m
<b>Capital expenditure</b>		
UK	<b>32.1</b>	24.2
Continental Europe	<b>1.7</b>	1.2
North America	<b>2.1</b>	2.1
Asia Pacific	<b>2.3</b>	1.2
	<b>38.2</b>	28.7
<b>Depreciation and amortisation</b>		
UK	<b>3.4</b>	3.4
Continental Europe	<b>1.6</b>	1.6
North America	<b>3.0</b>	3.2
Asia Pacific	<b>0.7</b>	0.7
Process costs	<b>19.4</b>	17.0
	<b>28.1</b>	25.9

The intangible assets and property, plant and equipment of the Group are reported within the geographic region to which they relate. The depreciation and amortisation of assets are expensed through the geography if they relate to a cost that is incurred by an Operating Company or through Process costs if they relate to costs incurred by a Group Process.

During the year ended 31 March 2014 the Group has changed the way in which it manages and reviews revenue by product category. The Group's growth strategy is focussed on products which it will be Famous For, which comprise semiconductors, interconnect, passives and electromechanical and automation and control. All other products are classified as Other Maintenance and are managed separately. The prior year comparative data has been restated using the same methodology.

	2014 £m	2013 £m
Famous For products	<b>696.1</b>	664.1
Other Maintenance products	<b>577.0</b>	571.5
	<b>1,273.1</b>	1,235.6

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## 4 Profit before tax

	<b>2014</b> £m	2013 £m
Profit before tax is stated after charging (crediting):		
Fees payable to the company's auditors for the audit of the Parent Company and Group accounts	<b>0.1</b>	0.1
Fees payable to the company's auditors and its associates for other services:		
Audit-related assurance services	<b>0.1</b>	0.1
The audit of the company's subsidiaries, pursuant to legislation	<b>0.6</b>	0.6
Other services relating to taxation	<b>0.3</b>	0.3
Depreciation	<b>10.9</b>	12.2
Amortisation of intangibles	<b>17.2</b>	13.7
Amortisation of government grants	<b>(0.2)</b>	(0.2)
Loss on disposal of intangible assets and property, plant and equipment	<b>1.2</b>	0.1
Hire of plant and machinery	<b>7.6</b>	7.5

## 5 Reorganisation costs

Reorganisation costs arising during the period are as follows:

	<b>2014</b> £m	2013 £m
Redundancy and associated costs	—	7.4
	—	7.4

During the year ended 31 March 2013, the Group undertook a significant restructuring of the business from a geographically-based operating model to a functionally-based global operating model. The costs incurred in relation to this restructuring activity included redundancy and associated consultancy costs. £6.8 million of the costs were paid in the year ended 31 March 2013, with the remaining balance of £0.6 million held in provisions due within one year at the year end. At 31 March 2014, the provision has been utilised in full and no further liabilities are expected.

## 6 Employees

### Numbers employed

	<b>2014</b>	2013
The average number of employees during the year was:		
Management and administration	<b>399</b>	357
Distribution and marketing	<b>5,813</b>	5,950
	<b>6,212</b>	6,307

### Aggregate employment costs

	<b>2014</b> £m	2013 £m
Wages and salaries	<b>192.2</b>	189.0
Social security costs	<b>22.2</b>	21.0
Share based payments	<b>2.6</b>	2.1
Pension costs	<b>19.2</b>	17.3
	<b>236.2</b>	229.4

\* Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102

The remuneration of individual directors is detailed on pages 80 and 81

## 6 Employees continued

### Directors' emoluments

	2014 £000		2013 £000	
	Highest paid director	Other directors	Highest paid director	Other directors
Aggregate emoluments	<b>941.4</b>	<b>630.4</b>	616.1	718.4
Deferred share plans	<b>171.9</b>	<b>114.6</b>	10.7	7.1
Cash supplement in lieu of pension	<b>173.7</b>	<b>168.0</b>	173.0	167.3
Gains realised on exercise of share options	—	<b>2.8</b>	—	—
	<b>1,287.0</b>	<b>915.8</b>	799.8	892.8
Number of directors		<b>2014</b>		2013
Exercising share options		<b>2</b>		2
Receiving shares as part of long term incentive schemes		<b>2</b>		2

Further information is available on directors' remuneration in the Directors' Remuneration Report on pages 67 to 87.

## 7 Share-based payments

### Employee benefits

#### Share-based payment transactions

The Group operates several share-based payment schemes, the largest of which are the Save As You Earn Scheme (SAYE), the Long Term Incentive Plan (LTIP) and the Deferred Share Bonus Plan (DSBP). Details of these are provided below.

Equity-settled share-based schemes are measured at fair value at the date of grant. The fair value is expensed with a corresponding increase in equity on a straight-line basis 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.

Cash-settled share options are measured at fair value at the balance sheet date. The Group recognises a liability at the balance sheet date based on these fair values, taking into account the estimated number of options that will actually vest and the relative completion of the vesting period. Changes in the value of this liability are recognised in the income statement for the year. Administrative expenses and distribution and marketing expenses include the cost of the share-based payment scheme.

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.

The total charge included in the Income Statement in the year was £2.6 million (2013: £2.1million). Of the total charge £1.5 million (2013: £2.0million) related to equity-settled share schemes and £1.1 million (2013: £0.1million) related to cash-settled share schemes.

#### Deferred Share Bonus Plan (DSBP)

Under the Company's DSBP, conditional awards of shares are made to plan participants to the value of 50% of their cash bonus. The award vests after two years, normally subject to the continued employment of the participant within the Group. There are no other performance conditions. A cash payment equivalent to the dividends that would have accrued on the shares will be made to the participants on vesting.

During the year a total of 17,665 shares (2013: 147,511) and no share equivalent awards paid in cash (2013: 13,750) were conditionally awarded to the scheme's participants.

Deferred shares relating to the bonus awards to senior managers for the year ended 31 March 2014 will be awarded in June 2014.

Details of conditional awards of shares and cash entitlements outstanding as at 31 March 2014 are set out below:

	Number of shares	
	2014	2013
Shares	<b>165,176</b>	519,139
Share equivalent awards to be paid in cash	<b>3,413</b>	41,887
	<b>168,589</b>	561,026

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## **7 Share-based payments continued**

### **Long Term Incentive Plan (LTIP)**

Under the Group's LTIP conditional awards of shares are made to the plan participants. At the vesting date the share award will either vest, in full or in part, or lapse. The awards include a right to receive dividend equivalents on vesting. The terms and conditions of the LTIP are such that the vesting conditions are based on both the performance of the Group versus the FTSE 250 and growth in earnings per share over the life of the scheme.

The fair value LTIP options was calculated at the grant date using a Monte Carlo model based on the assumptions below.

	<b>LTIP 2013</b>	LTIP 2012	LTIP 2011	LTIP 2010
Options granted	<b>1,068,944</b>	1,606,980	1,495,629	1,693,536
Fair value at grant date	<b>108.0p</b>	105.0p	144.0p	117.1p
Assumptions used				
Share price	<b>256p</b>	226p	274p	222p
Exercise price	<b>Nil</b>	Nil	Nil	Nil
Expected volatility	<b>32.0%</b>	32.1%	34.6%	38.3%
Expected option life	<b>3 years</b>	3 years	3 years	3 years
Expected dividend yield	<b>5.09%</b>	5.10%	7.30%	8.90%
Risk free interest rate	<b>0.58%</b>	0.20%	1.80%	4.14%

Volatility was estimated based on the historical volatility of the shares over a three year period up to the date of grant.

### **Save As You Earn Schemes (SAYE)**

The SAYE schemes are available to the majority of employees of the Group. The option price is based on the average market price of the Company's shares over the three days prior to the offer, discounted by 20%. The option exercise conditions are the employees' continued employment for a three year period and the maintenance of employees' regular monthly savings. Failure of either of these conditions is normally deemed a forfeiture of the option. At the end of the period the employee has six months to either purchase the shares at the agreed price or withdraw their savings with the accrued interest. There are no market conditions to the vesting of the options.

	<b>SAYE 3 yr 2013</b>	<b>SAYE 5 yr 2013</b>	SAYE 3 yr 2012	SAYE 5 yr 2012	SAYE 3 yr 2011	SAYE 5 yr 2011	SAYE 3 yr 2010	SAYE 5 yr 2010	SAYE 5 yr 2009
Options granted	<b>622,275</b>	<b>265,910</b>	1,223,209	466,184	660,883	299,559	595,181	370,029	249,009
Fair value at grant date	<b>52.0p</b>	<b>47.3p</b>	40.2p	37.1p	47.5p	45.0p	57.6p	52.5p	19.6p
Assumptions used									
Share price	<b>256p</b>	<b>256p</b>	201p	201p	269p	269p	217p	217p	141p
Exercise price	<b>214p</b>	<b>214p</b>	164p	164p	235p	235p	175p	175p	149p
Expected volatility	<b>32.0%</b>	<b>36.4%</b>	32.1%	36.1%	34.6%	33.1%	38.3%	32.9%	32.4%
Expected option life	<b>3 years</b>	<b>5 years</b>	3 years	5 years	3 years	5 years	3 years	5 years	5 years
Expected dividend yield	<b>5.00%</b>	<b>5.00%</b>	5.50%	5.50%	4.30%	4.30%	6.20%	6.20%	7.80%
Risk free interest rate	<b>0.58%</b>	<b>0.40%</b>	0.16%	0.40%	1.40%	2.16%	4.27%	4.27%	4.20%

Volatility was estimated based on the historical volatility of the shares over a 3 or 5 year period, as appropriate, up to the date of grant.

**7 Share-based payments continued****Number and weighted average exercise price of share options (equity and cash settled)**

<b>In thousands of options</b>	<b>Weighted average exercise price 2014</b>	<b>Number of options 2014</b>	<b>Weighted average exercise price 2013</b>	<b>Number of options 2013</b>
Outstanding at the beginning of the year	71p	10,561	66p	9,124
Forfeited during the year	182p	(105)	187p	(73)
Lapsed during the year	49p	(1,182)	106p	(1,721)
Exercised during the year	53p	(2,841)	43p	(1,637)
Granted during the year	107p	2,612	86p	4,868
Outstanding at the end of the year	80p	9,045	71p	10,561
Exercisable at the end of the year	n/a	—	241p	1

The options outstanding at 31 March 2014 have an exercise price in the range 0p to 235p and a weighted average contractual life of 3.2 years.

<b>In thousands of options</b>	<b>2014</b>	<b>2013</b>
Option prices		
£nil–£1.00	4,744	6,159
£1.00–£2.00	2,540	3,783
£2.00–£3.00	1,761	619
	<b>9,045</b>	<b>10,561</b>

**8 Pension schemes****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 2003. 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 the Republic of Ireland.

For UK employees who joined after 1 April 2003 the Group provides a defined contribution pension scheme. There are also defined contribution schemes in Australia, North America, Germany and the Republic of Ireland, and government schemes in France, Italy, Scandinavia 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: service cost, net interest cost and administrative expenses. The Group has adopted the amendment to IAS 19R, which requires actuarial gains and losses to be recorded in the Consolidated Statement of Comprehensive Income 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.

The funding of the UK defined benefit scheme is assessed in accordance with the advice of independent actuaries. Members are in the process of making decisions in respect of their future pension provision. The triennial actuarial valuation of the UK defined benefit pension scheme is currently ongoing and is due to complete in summer 2014. The net UK pension costs for the year ended 31 March 2014 amounted to £7.2 million (2013: £6.0 million as restated). The contributions paid by the Group to the defined contribution section of the scheme amounted to £5.3 million (2013: £4.7 million).

The defined benefit schemes expose the Group to actuarial risks such as longevity, interest rate, inflation and investment risks. For the UK scheme, following consultation with the Group, the Trustees have adopted an investment policy to mitigate some of these risks. In particular, the scheme holds leveraged matching funds which offset some interest and inflation rate risks in respect of pensioner liabilities.

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## **8 Pension schemes continued**

The rules of the UK Electrocomponents Group Pension scheme give the Trustee powers to wind up the scheme, which it may exercise if the Trustee is aware that the assets of the scheme are insufficient to meet its liabilities. Although the scheme is currently in deficit on a statutory funding basis, the Trustee and the Company have agreed a plan to eliminate the deficit over time and the Trustee has confirmed as at 8 May 2014 that it has no current intention of exercising its power to wind up the scheme.

The costs of the defined benefit pension scheme in Germany and the Republic of Ireland were £0.2 million (2013: £0.4 million). The costs of the defined contribution schemes in Australia, North America, Germany and the Republic of Ireland were £2.4 million (2013: £2.2 million), and those via government schemes in France, Italy, Scandinavia and North Asia were £4.1 million (2013: £4.1 million).

The Group expects to pay £4.8 million to its UK defined benefit pension scheme in 2014/15.

The assumptions used in the valuations of the liabilities of the Group's schemes were:

	2014 UK	2014 Germany	2014 Republic of Ireland	2013 UK	2013 Germany	2013 Republic of Ireland
Discount rate	<b>4.50%</b>	<b>3.50%</b>	<b>3.50%</b>	4.40%	4.00%	4.00%
Rate of increase in pensionable salaries	<b>2.55%</b>	<b>2.50%</b>	n/a	2.55%	2.50%	2.00%
Rate of RPI price inflation	<b>3.30%</b>	<b>2.00%</b>	<b>2.00%</b>	3.30%	2.00%	2.00%
Rate of CPI price inflation	<b>2.50%</b>	<b>2.00%</b>	<b>2.00%</b>	2.50%	2.00%	2.00%
Rate of pension increases						
RPI inflation capped at 5% p.a	<b>3.20%</b>	n/a	n/a	3.20%	n/a	n/a
RPI inflation capped at 2.5% p.a	<b>2.20%</b>	n/a	n/a	2.20%	n/a	n/a

The assumption on the rate of increase of pensionable salaries in the UK scheme has been restricted. This is due to the introduction of salary capping entitlement arrangements with respect to the defined benefit pension scheme in June 2008.

Based upon the demographics of scheme members, the weighted average life expectancy assumptions used to determine benefit obligations were:

	2014 UK Years	2014 Germany Years	2014 Republic of Ireland Years	2013 UK Years	2013 Germany Years	2013 Republic of Ireland Years
Member aged 65 (current life expectancy) – male	<b>22.3</b>	<b>19.2</b>	<b>22.7</b>	21.3	18.7	22.5
Member aged 65 (current life expectancy) – female	<b>24.0</b>	<b>23.3</b>	<b>24.0</b>	23.3	22.8	23.9
Member aged 45 (life expectancy at aged 65) – male	<b>23.7</b>	<b>19.3</b>	<b>25.6</b>	23.5	22.0	25.5
Member aged 45 (life expectancy at aged 65) – female	<b>26.2</b>	<b>24.5</b>	<b>26.5</b>	25.9	25.9	26.4

## 8 Pension schemes continued

The net costs (income) recognised in the Income Statement were:

	2014 UK £m	2014 Germany £m	2014 Republic of Ireland £m	2014 Total £m	2013 as restated*	2013 as restated*	2013 as restated*	2013 as restated*
Current service cost	<b>6.2</b>	—	0.1	<b>6.3</b>	5.5	—	0.1	5.6
Interest expense on DBO	<b>17.2</b>	0.1	0.2	<b>17.5</b>	16.5	0.3	0.2	17.0
Interest income on plan assets	(16.8)	—	(0.2)	(17.0)	(17.2)	—	(0.2)	(17.4)
Interest expense on effect of asset ceiling and onerous liability	—	—	—	—	0.6	—	—	0.6
Administrative expenses	<b>0.6</b>	—	—	<b>0.6</b>	0.6	—	—	0.6
Total Income Statement charge	<b>7.2</b>	<b>0.1</b>	<b>0.1</b>	<b>7.4</b>	6.0	0.3	0.1	6.4

\* Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102.

Of the net cost for the year, a charge of £0.2 million (2013: £0.3 million) has been included in administrative expenses and a charge of £7.2 million (2013: £6.1 million) in distribution and marketing expenses.

The actual gain on scheme assets was: UK £6.8 million (2013: £43.4 million), Germany £nil (2013: £nil) and the Republic of Ireland £0.6 million (2013: £0.4 million).

The valuation of the assets of the schemes as at 31 March were:

	2014 UK £m	2014 Germany £m	2014 Republic of Ireland £m	2013 UK £m	2013 Germany £m	2013 Republic of Ireland £m
Equities	<b>98.7</b>	n/a	<b>3.0</b>	95.7	n/a	2.4
Corporate bonds	<b>22.9</b>	n/a	<b>1.5</b>	23.1	n/a	1.4
Government bonds	<b>53.1</b>	n/a	n/a	44.1	n/a	n/a
Diversified growth funds	<b>164.1</b>	n/a	n/a	158.7	n/a	n/a
Credit funds	<b>15.8</b>	n/a	n/a	14.6	n/a	n/a
Matching plus funds	<b>29.3</b>	n/a	n/a	47.3	n/a	n/a
Cash	<b>1.0</b>	n/a	n/a	0.8	n/a	n/a
Other	—	n/a	<b>0.1</b>	n/a	n/a	0.1
Total market value of scheme assets	<b>384.9</b>	—	<b>4.6</b>	384.3	—	3.9

No amount is included in the market value of assets relating to either financial instruments or property occupied by the Group.

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes were:

	2014 UK £m	2014 Germany £m	2014 Republic of Ireland £m	2014 Total £m	2013 UK £m	2013 Germany £m	2013 Republic of Ireland £m	2013 Total £m
Total market value of assets	<b>384.9</b>	—	<b>4.6</b>	<b>389.5</b>	384.3	—	3.9	388.2
Present value of scheme liabilities	(418.6)	(6.2)	(5.6)	(430.4)	(396.7)	(5.7)	(4.8)	(407.2)
Schemes' surplus (deficit)	(33.7)	(6.2)	(1.0)	(40.9)	(12.4)	(5.7)	(0.9)	(19.0)

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## **8 Pension schemes continued**

The movement in present value of the defined benefit obligations in the current period was:

	2014 UK £m	2014 Germany £m	2014 Republic of Ireland £m	2014 Total £m	2013 as restated* UK £m	2013 as restated* Germany £m	2013 as restated* Republic of Ireland £m	2013 as restated* Total £m
Present value of the defined benefit obligations at the beginning of the year	<b>396.7</b>	<b>5.7</b>	<b>4.8</b>	<b>407.2</b>	335.6	5.8	5.1	346.5
Movement in year								
Current service cost	<b>6.2</b>	—	0.1	<b>6.3</b>	5.5	—	0.1	5.6
Interest expense	<b>17.2</b>	<b>0.1</b>	<b>0.2</b>	<b>17.5</b>	16.5	0.3	0.2	17.0
Insurance premiums for risk benefits	(0.3)	—	—	(0.3)	—	—	—	—
Effect of changes in demographic assumptions	<b>6.2</b>	—	—	<b>6.2</b>	—	—	—	—
Effect of changes in financial assumptions	(8.0)	<b>0.5</b>	<b>0.6</b>	(6.9)	48.9	(0.3)	(0.7)	47.9
Effect of experience adjustments	<b>10.7</b>	—	—	<b>10.7</b>	—	—	—	—
Benefits paid	(10.1)	(0.2)	(0.1)	(10.4)	(9.8)	(0.1)	—	(9.9)
Exchange differences	—	<b>0.1</b>	—	<b>0.1</b>	—	—	0.1	0.1
Present value of the defined benefit obligations at the end of the year	<b>418.6</b>	<b>6.2</b>	<b>5.6</b>	<b>430.4</b>	396.7	5.7	4.8	407.2

\* Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102

## 8 Pension schemes continued

The movement in present value of the fair value of scheme assets in the current period was:

	2014 UK £m	2014 Germany £m	2014 Republic of Ireland £m	2014 Total £m	2013 as restated* UK £m	2013 as restated* Germany £m	2013 as restated* Republic of Ireland £m	2013 as restated* Total £m
Present value of the fair value of scheme assets at the beginning of the year	<b>384.3</b>	—	<b>3.9</b>	<b>388.2</b>	346.2	—	3.3	349.5
Movement in year:								
Interest income	<b>16.8</b>	—	<b>0.2</b>	<b>17.0</b>	17.2	—	0.2	17.4
Return on plan assets (excluding interest income)	(10.0)	—	0.4	(9.6)	26.2	—	0.2	26.4
Contributions by company	<b>4.8</b>	<b>0.2</b>	<b>0.2</b>	<b>5.2</b>	5.1	0.1	0.2	5.4
Benefits paid	(10.1)	(0.2)	(0.1)	(10.4)	(9.8)	(0.1)	—	(9.9)
Administrative expenses	(0.6)	—	—	(0.6)	(0.6)	—	—	(0.6)
Insurance premiums for risk benefits	(0.3)	—	—	(0.3)	—	—	—	—
Present value of the fair value of scheme assets at the end of the year	<b>384.9</b>	—	<b>4.6</b>	<b>389.5</b>	384.3	—	3.9	388.2

\* Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102

The cumulative amount of actuarial loss recognised is £36.1 million (2013: £16.5 million).

In addition, the value of the assets held by external AVCs amounted to £0.1 million as at 31 March 2014 (2013: £0.1 million).

The value of the assets held by the defined contribution section of the UK scheme amounted to £32.7 million as at 31 March 2014 (2013: £26.7 million).

## Sensitivity analysis of the impact of changes in key IAS 19 assumptions

The following analysis estimates the impact of various principal assumption changes on the UK defined benefit pension obligation, whilst holding all other assumptions constant.

Effect on obligation of a 0.1% increase to the assumed discount rate	Liabilities reduce by £8.7m
Effect on obligation of an assumed increase in one year's life expectancy	Liabilities increase by £9.7m

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## **9 Income tax expense**

### 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.

The tax payable on profits is determined based on tax laws and regulations that apply in each of the jurisdictions in which the Group operates. Where the precise impact of these laws and regulations is unclear then reasonable estimates may be used to determine the tax charge included in the financial statements.

	2014 £m	2013 as restated* £m
<b>Taxation on the profit of the Group</b>		
UK corporation tax at 23% (2013: 24%)	<b>13.4</b>	12.8
UK deferred taxation	<b>0.1</b>	(2.4)
	<b>13.5</b>	10.4
Overseas current taxation	<b>10.1</b>	10.9
Overseas deferred taxation	<b>6.0</b>	6.0
Total income tax expense in Income Statement	<b>29.6</b>	27.3

\* Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102

Total tax expense is reconciled to a notional 23% (2013: 24%) of profit before taxation as follows:

	2014 £m	2013 as restated* £m
<b>Taxation on the profit of the Group</b>		
Expected tax charge	<b>23.3</b>	20.8
Differences in overseas corporation tax rates	<b>6.4</b>	5.7
Impact of tax losses	<b>1.4</b>	(0.6)
Items not taxable for tax purposes	<b>(3.0)</b>	(0.5)
Other local taxes suffered overseas	<b>0.7</b>	1.2
Under provision in prior years	<b>0.8</b>	0.7
	<b>29.6</b>	27.3

\* Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102

**9 Income tax expense continued****Tax (income) expense recognised directly in other comprehensive income**

	2014 £m	2013 as restated* £m
<b>Recognised in retained earnings</b>		
Relating to remeasurement of pension deficit	(3.5)	(1.7)
<b>Recognised in the hedging reserve</b>		
Relating to gain (loss) on cash flow hedges	0.7	(0.4)
<b>Recognised in the cumulative translation reserve</b>		
Relating to loss on net investment hedges	—	(1.0)
	<b>(2.8)</b>	(3.1)
<b>Tax recognised directly in equity</b>		
Relating to equity-settled transactions	<b>(0.5)</b>	0.5

\* Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102

The 2014 Budget on 19 March 2014 announced that the UK corporation tax rate will reduce to 20% by 2015. A reduction to 20% (effective from 1 April 2014) was substantively enacted on 3 July 2012. This will apply to the company's future tax charge. In line with this change the rate applying to UK deferred tax assets and liabilities has been reduced from 23% to 20% creating a rate adjustment, which is partly reflected by a benefit to the Group income statement (£0.4 million), and partly in a benefit to the consolidated statement of comprehensive income (£0.4 million). Accordingly both recognised and unrecognised UK deferred tax balances as at 31 March 2014 have been calculated at a rate of 20%.

Deferred taxation balances are analysed in note 22.

**10 Dividends**

	2014 £m	2013 £m
Amounts recognised in the period:		
Final dividend for the year ended 31 March 2013 – 6.75p (2012: 6.75p)	29.5	29.5
Interim dividend for the year ended 31 March 2014 – 5.0p (2013: 5.0p)	21.9	21.8
	<b>51.4</b>	51.3
Proposed dividend for the year ended 31 March 2014 – 6.75p	<b>29.5</b>	

The amount waived by the trustees of the Employee Benefit Trust in respect of the interim and final dividends was £0.1 million (2013: £0.1 million).

The proposed final dividend is subject to approval by shareholders at the AGM on 24 July 2014 and has not been included as a liability in these accounts.

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## 11 Earnings per share

	2014 £m	2013 as restated* £m
Profit for the year attributable to the equity shareholders of the parent company	<b>71.5</b>	59.4
Reorganisation costs	—	7.4
Tax impact of reorganisation costs	—	(1.7)
Headline profit for the year attributable to the equity shareholders of the parent company	<b>71.5</b>	65.1
Weighted average number of shares	<b>439,089,865</b>	437,818,646
Dilutive effect of share options	<b>3,099,210</b>	2,047,722
Diluted weighted average number of shares	<b>442,189,075</b>	439,866,368
	<b>Pence</b>	Pence
Basic earnings per share	<b>16.3</b>	13.6
Diluted earnings per share	<b>16.2</b>	13.5
Headline basic earnings per share	<b>16.3</b>	14.9
Headline diluted earnings per share	<b>16.2</b>	14.8

\* Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 on page 102

There were no further share options (2013: 1,104,306) outstanding as at 31 March 2014 that were anti-dilutive.

## 12 Intangible assets

### 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.

**12 Intangible assets continued****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.

<b>Cost</b>	<b>Goodwill £m</b>	<b>Software £m</b>	<b>Other intangibles £m</b>	<b>Total £m</b>
At 1 April 2012	163.7	153.8	0.3	317.8
Additions	—	24.4	—	24.4
Disposals	—	(2.1)	—	(2.1)
Translation differences	8.5	0.9	—	9.4
At 1 April 2013	<b>172.2</b>	<b>177.0</b>	<b>0.3</b>	<b>349.5</b>
Additions	—	28.4	0.1	28.5
Disposals	—	(5.2)	—	(5.2)
Reclassification	—	2.7	—	2.7
Translation differences	(15.4)	(3.3)	—	(18.7)
<b>At 31 March 2014</b>	<b>156.8</b>	<b>199.6</b>	<b>0.4</b>	<b>356.8</b>
<b>Amortisation</b>				
At 1 April 2012	—	113.5	0.2	113.7
Charged in the year	—	13.7	—	13.7
Disposals	—	(1.7)	—	(1.7)
Translation differences	—	0.3	—	0.3
At 1 April 2013	—	<b>125.8</b>	<b>0.2</b>	<b>126.0</b>
Charged in the year	—	<b>17.1</b>	<b>0.1</b>	<b>17.2</b>
Disposals	—	(4.1)	—	(4.1)
Translation differences	—	(2.1)	—	(2.1)
<b>At 31 March 2014</b>	<b>—</b>	<b>136.7</b>	<b>0.3</b>	<b>137.0</b>
<b>Net book value</b>				
<b>At 31 March 2014</b>	<b>156.8</b>	<b>62.9</b>	<b>0.1</b>	<b>219.8</b>
At 31 March 2013	172.2	51.2	0.1	223.5
At 31 March 2012	163.7	40.3	0.1	204.1

Of total goodwill of £156.8 million (2013: £172.2 million), £156.2 million (2013: £171.6 million) related to the acquisition of Allied Electronics Inc. in July 1999, and £0.6 million (2013: £0.6 million) related to the acquisition of the Group's Norwegian distributor in September 2001.

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## **12 Intangible assets continued**

### **Value in use calculations**

The recoverable amount of goodwill is based on value in use calculations.

These calculations use discounted cash flow projections based on actual operating results together with management projections for five years. These cash flows are based on extrapolations from earlier budgets and forecasts. These are subject to assessing the reasonableness of the assumptions; for example, by examining the causes of differences between past cash flow projections and actual cash flows.

Cash flows for further periods, i.e. beyond five years, are extrapolated using a long-term annual growth rate of 2% (2013: 2%), which is consistent with the prudent 'market estimate' long-term average growth rate for the distribution industry.

A pre-tax discount rate of 7.1% (2013: 8.4%) has been applied in calculating the discounted projected cash flows.

### **Key assumptions**

The key assumptions used are the sales growth rate and discount rate.

The sales growth rate is prepared using internal forecasts based upon historical growth rates and future medium-term plans together with relevant macroeconomic indicators. The long-term growth rates used are consistent with the prudent 'market estimate' long-term average growth rates for the industry and do not exceed expected long-term GDP growth.

The discount rate is derived from the Group's weighted average cost of capital at 31 March 2014 and has been calculated reflecting market assessments at that time.

The Directors believe that currently all 'reasonably likely' changes in the key assumptions referred to above would not give rise to an impairment charge.

### **Outcome of calculations**

The recoverable amount of the Allied Electronics Inc. cash generating unit exceeds its carrying value and the carrying value of the goodwill is therefore not impaired.

## **13 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.

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%
Computer equipment	20%–33%
Other office equipment	20%

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

**13 Property, plant and equipment continued****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.

<b>Cost</b>	<b>Land and buildings £m</b>	<b>Plant and machinery £m</b>	<b>Computer systems £m</b>	<b>Total £m</b>
At 1 April 2012	110.9	130.4	80.3	321.6
Additions	0.2	4.1	—	4.3
Disposals	—	(1.5)	(2.6)	(4.1)
Translation differences	1.5	0.8	0.5	2.8
<b>At 1 April 2013</b>	<b>112.6</b>	<b>133.8</b>	<b>78.2</b>	<b>324.6</b>
Additions	0.6	7.1	2.0	9.7
Disposals	—	(0.7)	(3.4)	(4.1)
Reclassification	—	—	(2.7)	(2.7)
Translation differences	(2.8)	(2.3)	(1.7)	(6.8)
<b>At 31 March 2014</b>	<b>110.4</b>	<b>137.9</b>	<b>72.4</b>	<b>320.7</b>
<b>Depreciation</b>				
At 1 April 2012	33.9	106.6	61.6	202.1
Charged in the year	2.2	5.6	4.4	12.2
Disposals	—	(1.3)	(1.8)	(3.1)
Translation differences	0.3	0.6	0.4	1.3
<b>At 1 April 2013</b>	<b>36.4</b>	<b>111.5</b>	<b>64.6</b>	<b>212.5</b>
Charged in the year	2.5	4.8	3.6	10.9
Disposals	—	(0.5)	(3.4)	(3.9)
Translation differences	(0.6)	(1.6)	(1.2)	(3.4)
<b>At 31 March 2014</b>	<b>38.3</b>	<b>114.2</b>	<b>63.6</b>	<b>216.1</b>
<b>Net book value</b>				
<b>At 31 March 2014</b>	<b>72.1</b>	<b>23.7</b>	<b>8.8</b>	<b>104.6</b>
At 31 March 2013	76.2	22.3	13.6	112.1
At 31 March 2012	77.0	23.8	18.7	119.5
<b>Net book value of land and buildings</b>				
Freehold land				<b>2014 £m</b>
Freehold buildings				12.0
Long leasehold buildings				56.4
Short leasehold buildings				0.3
				3.4
				<b>72.1</b>
				76.2
<b>Net book value of plant and machinery</b>				
Plant and machinery				<b>2014 £m</b>
Other office equipment				22.5
Motor vehicles				1.0
				0.2
				<b>23.7</b>
				22.3

All classes of tangible assets are depreciated except for freehold land.

**14 Capital commitments**

	<b>2014 £m</b>	<b>2013 £m</b>
Contracted capital expenditure at 31 March, for which no provision has been made in these accounts	0.2	1.6

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## **15 Investments**

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.

	<b>2014</b> <b>£m</b>	<b>2013</b> <b>£m</b>
Jointly controlled entity	0.4	0.6

For details of the jointly controlled entity, see below.

## **16 Principal subsidiary undertakings and associated undertakings**

	<b>Principal location</b>	<b>Country of incorporation</b>
<b>High service distribution of electronics and maintenance products</b>		
RS Components Pty Limited*	Sydney	Australia
RS Components Handelsges.m.b.H.*	Gmünd	Austria
Allied Electronics (Canada) Inc.*	Ottawa	Canada
RS Componentes Electrónicos Limitada*	Santiago	Chile
RS Components A/S*	Copenhagen	Denmark
RS Composants SAS*	Beauvais	France
RS Components GmbH*	Frankfurt	Germany
RS Components Limited*	Kowloon	Hong Kong
RS Components & Controls (India) Limited†	New Delhi	India
RS Components SpA*	Milan	Italy
RS Components KK*	Yokohama	Japan
RS Components Sdn Bhd*	Kuala Lumpur	Malaysia
RS Components BV*	Haarlem	Netherlands
RS Components Limited*	Auckland	New Zealand
RS Components AS*	Haugesund	Norway
RS Components (Shanghai) Company Limited*	Shanghai	People's Republic of China
RS Components Sp. Z.o.o.*	Warsaw	Poland
Radionics Limited*	Dublin	Republic of Ireland
RS Components Pte Limited*	Singapore	Singapore
Amidata SAu*	Madrid	Spain
RS Components AB*	Vällingby	Sweden
RS Components Company Limited*	Bangkok	Thailand
RS Components Limited	Corby	UK
Allied Electronics Inc.*	Fort Worth	United States of America
RS Components Corporation*	Manilla	Philippines
<b>Holding and Management Companies</b>		
Electrocomponents France SARL*	Beauvais	France
Electrocomponents UK Limited	Oxford	UK
RS Components Holdings Limited*	Oxford	UK
Electrocomponents North America Inc.*	Laytonsville	United States of America

\* Except as stated below all of the above are wholly owned by Electrocomponents plc. Those companies marked with an asterisk are indirectly owned. The companies operate within their countries of incorporation. RS Components Limited (UK) exports to most countries where the Group does not have a trading company and operates branch offices in Japan, South Africa, Taiwan and the Philippines. RS Components Limited also operates under the names of RS Calibration, RS Mechanical and RS Health & Safety in the UK. The information given above is in respect of such undertakings as are referred to in s410(2) of the Companies Act 2006.

† RS Components & Controls (India) Limited (RSCC) is a jointly controlled entity with Controls & Switchgear Company Limited, a company registered in India. The authorised share capital of this company is INR20 million, of which INR18 million is issued and owned in equal shares by Electrocomponents UK Limited and its partner. RS Components Limited supplies products to RSCC, while office space and distribution network are provided by Controls & Switchgear. During the year ended

31 March 2014 the Group made sales of £0.7 million (2013: £0.7 million) to RSCC. RSCC is accounted for using the equity accounting method.

A full list of subsidiary companies is available from the Company's registered office.

## 17 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.

The Group estimates the net realisable value of inventory in order to determine the value of any provision required and key judgements relate to the duration of product lifecycles, amount of anticipated sales over this lifecycle and the value recoverable from any excess stock.

	2014 £m	2013 £m
Raw materials and consumables	<b>45.8</b>	52.8
Finished goods and goods for resale	<b>240.6</b>	240.9
Gross inventories	<b>286.4</b>	293.7
Stock provisions	<b>(27.6)</b>	(31.8)
Net inventories	<b>258.8</b>	261.9

During the year £9.1 million (2013: £11.9 million) was recognised as an expense relating to the write down of inventory to net realisable value.

## 18 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.

	2014 £m	2013 £m
Gross trade receivables	<b>202.6</b>	208.0
Provision for doubtful debts	<b>(5.0)</b>	(5.4)
Amounts owed by jointly controlled entity	<b>0.3</b>	0.2
Derivative assets (see note 21)	<b>1.9</b>	1.3
Other receivables	<b>4.4</b>	4.3
Prepayments and accrued income	<b>10.6</b>	12.7
Trade and other receivables falling due within one year	<b>214.8</b>	221.1
Other receivables falling due after more than one year	<b>5.3</b>	7.1

## 19 Trade and other payables

	2014 £m	2013 £m
Trade payables	<b>105.7</b>	120.8
Other taxation and social security	<b>12.9</b>	12.8
Derivative liabilities (see note 21)	<b>0.5</b>	1.7
Other payables	<b>1.4</b>	3.0
Government grants	<b>0.1</b>	0.1
Accruals and deferred income	<b>64.8</b>	56.4
Trade and other payables due within one year	<b>185.4</b>	194.8
Other payables	<b>8.1</b>	7.9
Government grants	<b>3.7</b>	3.9
Other payables due in more than one year	<b>11.8</b>	11.8

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## 20 Interest bearing loans and borrowings

	2014 £m	2013 £m			
<b>Non-current liabilities:</b>					
Unsecured bank facilities	<b>37.1</b>	62.2			
Finance lease liabilities	—	0.7			
Unsecured Private Placement Notes	<b>94.3</b>	105.8			
	<b>131.4</b>	168.7			
<b>Current liabilities:</b>					
Unsecured bank overdrafts	<b>15.8</b>	10.7			
Finance lease liabilities	<b>0.7</b>	1.4			
	<b>16.5</b>	12.1			
<b>Borrowings are repayable as follows:</b>					
Amounts falling due on demand or in less than one year	<b>16.5</b>	12.1			
In more than one but not more than two years	<b>76.4</b>	0.7			
In more than two but not more than three years	—	105.5			
In more than three but not more than four years	<b>55.0</b>	—			
In more than four but not more than five years	—	62.5			
	<b>147.9</b>	180.8			
<hr/>					
	Sterling 2014 £m	US Dollar 2014 £m	Euro 2014 £m	Other 2014 £m	Total 2014 £m
<b>Borrowings are analysed by currency as:</b>					
Unsecured bank overdrafts	<b>10.8</b>	<b>4.4</b>	<b>0.2</b>	<b>0.4</b>	<b>15.8</b>
Unsecured bank facilities	<b>10.0</b>	<b>23.9</b>	—	<b>3.2</b>	<b>37.1</b>
Finance lease liabilities	<b>0.7</b>	—	—	—	<b>0.7</b>
Unsecured Private Placement Notes	—	<b>94.3</b>	—	—	<b>94.3</b>
Total borrowings	<b>21.5</b>	<b>122.6</b>	<b>0.2</b>	<b>3.6</b>	<b>147.9</b>
<hr/>					
	Sterling 2013 £m	US Dollar 2013 £m	Euro 2013 £m	Other 2013 £m	Total 2013 £m
<b>Borrowings are analysed by currency as:</b>					
Unsecured bank overdrafts	8.7	—	0.7	1.3	10.7
Unsecured bank facilities	24.6	26.3	7.6	3.7	62.2
Finance lease liabilities	2.1	—	—	—	2.1
Unsecured Private Placement Notes	—	105.8	—	—	105.8
Total borrowings	35.4	132.1	8.3	5.0	180.8

## 21 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 fixed terms of between three and six months of the majority of its operating companies. In addition there are also a 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:

- 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.
- Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability.
- 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.

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 and exchange rate risks arising from financing activities, holding a small number of interest rate and cross currency swaps which swap certain fixed rate loans into floating rate.

The fair value of the swaps is the market value of the swap at the balance sheet date, taking into account current interest rates. The market value of changes in fair values of derivatives designated as fair value hedges and changes in fair value of the related hedged item are recognised directly in the income statement.

All 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.

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## **21 Financial instruments** continued

### **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.

### **Fair values of financial assets and liabilities**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows.

None of the financial assets or financial liabilities have been reclassified during the year.

	Notes	Valuation methodology	Carrying value £m	Fair value £m
<b>Financial assets</b>				
<b>Financial assets held at fair value</b>				
Interest rate swaps used for hedging		A	3.7	3.7
Forward exchange rate contracts used for hedging	18	A	1.9	1.9
			5.6	5.6
<b>Financial assets held at amortised cost</b>				
Cash and cash equivalents	26	D	0.7	0.7
Trade receivables, other receivables and accrued income	18	F	213.5	213.5
			214.2	214.2
<b>Total financial assets at 31 March 2014</b>			<b>219.8</b>	<b>219.8</b>

	Notes	Valuation methodology	Carrying value £m	Fair value £m
<b>Financial liabilities</b>				
<b>Financial liabilities held at fair value</b>				
Interest rate swaps used for hedging		A	(0.1)	(0.1)
Forward exchange rate contracts used for hedging	19	A	(0.5)	(0.5)
Private Placement notes	20	C	(64.4)	(64.4)
			(65.0)	(65.0)
<b>Financial liabilities held at amortised cost</b>				
Bank facilities	20	D	(37.1)	(37.1)
Private Placement notes	20	D	(29.9)	(31.7)
Finance lease liabilities	20	E	(0.7)	(0.7)
Bank overdrafts	20	D	(15.8)	(15.8)
Trade payables, other payables and accruals	20	F	(202.2)	(202.2)
			(285.7)	(287.5)
<b>Total financial liabilities at 31 March 2014</b>			<b>(350.7)</b>	<b>(352.5)</b>

**21 Financial instruments** continued

	Notes	Valuation methodology	Carrying value £m	Fair value £m
<b>Financial assets</b>				
<b>Financial assets held at fair value</b>				
Interest rate swaps used for hedging		A	11.8	11.8
Forward exchange rate contracts used for hedging	18	A	1.3	1.3
			13.1	13.1
<b>Financial assets held at amortised cost</b>				
Cash and cash equivalents	26	D	9.3	9.3
Trade receivables, other receivables and accrued income	18	F	217.3	217.3
			226.6	226.6
<b>Total financial assets at 31 March 2013</b>			<b>239.7</b>	<b>239.7</b>
<b>Financial liabilities</b>				
<b>Financial liabilities held at fair value</b>				
Forward exchange rate contracts used for hedging	19	A	(1.7)	(1.7)
Private Placement notes	20	C	(72.9)	(72.9)
			(74.6)	(74.6)
<b>Financial liabilities held at amortised cost</b>				
Bank facilities	20	D	(62.2)	(62.2)
Private Placement notes	20	D	(32.9)	(35.4)
Finance lease liabilities	20	E	(2.1)	(2.1)
Bank overdrafts	20	D	(10.7)	(10.7)
Trade payables, other payables and accruals	20	F	(210.4)	(210.4)
			(318.3)	(320.8)
<b>Total financial liabilities at 31 March 2013</b>			<b>(392.9)</b>	<b>(395.4)</b>

**Estimation of fair values**

The fair values reflected in the table above have been determined by reference to available market information at the balance sheet date and using the methodologies described below.

**A Derivative financial assets and liabilities**

Fair values are estimated by discounting expected future contractual cash flows using prevailing interest rate curves and valuing any amounts denominated in foreign currencies at the exchange rate prevailing at the balance sheet date. These financial instruments are included on the balance sheet at fair value, derived from observable market prices. (Level 2 as defined by IFRS 7 Financial Instruments: Disclosures.)

**B Interest-bearing loans held at fair value**

These comprise sterling and foreign currency denominated interest bearing loans which are subject to hedge accounting. The foreign currency amounts have been valued at the exchange rate prevailing at the balance sheet date. (Level 2 as defined by IFRS 7 Financial Instruments: Disclosures.)

**C Loans designated under fair value hedge relationships**

These comprise sterling and foreign currency denominated interest bearing loans which are subject to hedge accounting. The foreign currency amounts have been valued at the exchange rate prevailing at the balance sheet date. These loans have been designated under fair value hedge relationships.

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## **21 Financial instruments** continued

### **D Cash and cash equivalents, bank overdrafts, interest-bearing loans held at amortised cost**

Cash and cash equivalents largely comprise local bank account balances, which typically bear interest at rates set by reference to local applicable rates or cash float balances which have not yet cleared for interest purposes. Fair values are estimated to equate to carrying amounts as their re-pricing maturity is less than one year.

Interest bearing loans held at amortised cost comprise fixed rate sterling and foreign currency denominated loans. For carrying values the foreign currency principal amounts have been valued at the exchange rate prevailing at the balance sheet date. Fair values are estimated by discounting future cash flows using prevailing interest rate curves.

Bank overdrafts are repayable on demand and are all unsecured. They bear interest at rates set by reference to applicable local rates. Fair values are estimated to equate to carrying amounts as their re-pricing maturity is less than one year.

### **E Finance lease liabilities**

Fair values are estimated by discounting future cash flows using prevailing interest rate curves.

### **F Other financial assets and liabilities**

Fair values of receivables and payables are determined by discounting future cash flows. For amounts with a repricing maturity of less than one year, fair value is assumed to approximate to the carrying amount.

### **Cash pooling**

The Group operates legal arrangements whereby cash balances and overdrafts held with the same bank are offset to give a net balance which is included within cash and cash equivalents on the balance sheet. These cash and bank overdraft figures before netting are shown in the tables below:

	Gross amounts before offsetting £m	Gross amounts set off £m	Net amounts presented £m
<b>31 March 2014</b>			
Cash at bank and in hand	213.1	(212.7)	0.4
Bank overdrafts	(228.3)	212.7	(15.6)
<b>Total</b>	<b>(15.2)</b>	—	<b>(15.2)</b>
<b>31 March 2013</b>			
Cash at bank and in hand	175.1	(175.1)	—
Bank overdrafts	(185.4)	175.1	(10.3)
<b>Total</b>	<b>(10.3)</b>	—	<b>(10.3)</b>

### **Risk management objectives and policies**

The principal financial risks to which the Group is exposed are those of liquidity, market and credit. Each of these are managed in accordance with Board approved policies. The policies are set out below.

## 21 Financial instruments continued

### Liquidity risk

The Group's key priority is to ensure that it can meet its liabilities as they fall due. The Group ensures this by having sufficient committed debt facilities in place to meet its anticipated funding requirements. The Group's forecast funding requirements and its committed debt facilities are reported to and monitored by the Treasury Committee monthly.

As at 31 March 2014 the Group had the following committed debt finance in place:

- Private Placement notes of \$150 million with maturities of June 2015 and June 2017.
- A syndicated multicurrency facility for \$75 million, £120 million and €50 million with a maturity of November 2015;

As at 31 March 2014, the Group had available £169.1 million of undrawn committed debt facilities in respect of which all conditions precedent had been met.

The Group also uses bank overdrafts, uncommitted short term money market loans, cash and short term investments. The main purpose of these financial instruments is to manage the Group's day-to-day funding and liquidity requirements.

The following are the contractual maturities of financial liabilities, including contractual future interest payments.

### Maturity profile of financial liabilities

	Carrying amounts £m	Contractual cash flows £m	Within 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
<b>Derivative financial liabilities</b>								
Interest rate swaps used for hedging	(0.1)	(0.4)	(0.2)	(0.2)	—	—	—	—
Forward exchange rate contracts used for hedging	(0.5)	(0.5)	(0.5)	—	—	—	—	—
<b>Non-derivative financial liabilities</b>								
Bank loans	(38.1)	(38.1)	(0.6)	(37.5)	—	—	—	—
Private Placement notes	(94.3)	(101.6)	(4.3)	(42.4)	(2.6)	(52.3)	—	—
Finance lease liabilities	(0.7)	(0.7)	(0.7)	—	—	—	—	—
Bank overdrafts	(15.8)	(15.8)	(15.8)	—	—	—	—	—
Trade payables, other payables and accruals*	(202.2)	(202.2)	(202.2)	—	—	—	—	—
<b>At 31 March 2014</b>	<b>(351.7)</b>	<b>(359.3)</b>	<b>(224.3)</b>	<b>(80.1)</b>	<b>(2.6)</b>	<b>(52.3)</b>	<b>—</b>	<b>—</b>

	Carrying amounts £m	Contractual cash flows £m	Within 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
<b>Derivative financial liabilities</b>								
Interest rate swaps used for hedging	—	—	—	—	—	—	—	—
Forward exchange rate contracts used for hedging	(1.7)	(1.7)	(1.7)	—	—	—	—	—
<b>Non-derivative financial liabilities</b>								
Bank loans	(62.2)	(64.8)	(0.9)	(0.9)	(63.0)	—	—	—
Private Placement notes	(105.8)	(116.5)	(4.8)	(4.8)	(46.6)	(2.9)	(57.4)	—
Finance lease liabilities	(2.1)	(2.1)	(1.4)	(0.7)	—	—	—	—
Bank overdrafts	(10.7)	(10.7)	(10.7)	—	—	—	—	—
Trade payables, other payables and accruals*	(210.4)	(210.4)	(207.2)	(3.2)	—	—	—	—
<b>At 31 March 2013</b>	<b>(392.9)</b>	<b>(406.2)</b>	<b>(226.7)</b>	<b>(9.6)</b>	<b>(109.6)</b>	<b>(2.9)</b>	<b>(57.4)</b>	<b>—</b>

\* Excludes derivatives which are shown separately.

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## **21 Financial instruments** continued

### **Market risk**

#### **Foreign currency transactional risk**

The Group is exposed to foreign currency transactional risk because most operating companies have some level of payables in currencies other than their functional currency. Some operating companies also have receivables in currencies other than their functional currency.

Hedging of currency exposures during periods when operating companies cannot easily change their selling prices is implemented in order to 'shelter' the forecast gross profits during those periods. In this way the impacts of currency fluctuations can be smoothed until selling prices can be changed in the light of movements in exchange rates. The hedges are enacted through forward foreign currency contracts entered into by Group Treasury based on trading projections provided by the operating companies. The Group's largest exposures relate to Euros and US Dollars. As at 31 March 2014, net forecasted exposures in Euros and US Dollars for the first six months (Euros) and first three months (US Dollars) of the year ending 31 March 2015 were 100% hedged.

In addition, specific cash flows relating to material transactions in currencies other than the functional currency of the local business are hedged when the commitment is made.

The Group classifies forward exchange contracts as hedging instruments against forecast receivables/payables and designates them as cash flow hedges for accounting purposes. The forecast cash flows are expected to occur evenly throughout the period for 12 months from the year end, and will affect the income statement in the period in which they occur. The net fair value of forward exchange contracts not used as hedges of forecast transactions at 31 March 2014 was £nil (2013: £nil).

Foreign currency transaction exposures, and the hedges in place to mitigate them, are monitored monthly by the Treasury Committee.

The Group does not believe its foreign currency transactional risk has materially altered during the year.

#### **Foreign currency translational risk**

During the year ended 31 March 2010 the Group issued \$37.5 million of Private Placement Notes, with maturities of June 2015 and June 2017, and, using cross currency interest rate swaps, swapped \$36.3million to £22.5 million at a floating interest rate.

In June 2010 a further \$112.5million of Private Placement Notes, with maturities of June 2015 and June 2017 were issued, and, using cross-currency interest rate swaps the Group swapped \$63.8million into a combination of £14.8 million and €28.3 million at floating interest rates.

These cross-currency interest rate swaps are designated as fair value hedges and are expected to remain highly effective over the life of the Private Placement notes.

The Group has designated certain external loans as net investment hedges against its investments in its US and European subsidiaries. The carrying value of these \$ and € hedges remained highly effective throughout the year ended 31 March 2014.

A foreign exchange gain of £7.1 million (2013: loss of £2.8 million) was recognised in equity on translation of the loans to Sterling in the year ended 31 March 2014.

No other foreign currency translation exposures are explicitly hedged although local currency debt is used where economic and fiscally efficient in the financing of subsidiaries and this provides a degree of natural hedging. Guidelines are in place to manage the currency mix of the Group's net debt. The Group does not believe its foreign currency translational risk has materially altered during the year.

## 21 Financial instruments continued

### Interest rate risk

The Group has relatively high interest cover and therefore the Group adopts a policy of paying and receiving most of its interest on a variable interest rate basis, as in the opinion of the Group this minimises interest cost over time. This policy is subject to regular monitoring of the effect of potential changes in interest rates on its interest cost with a view to taking suitable actions should exposure reach certain levels. The Group does not believe its interest rate risk has materially altered during the year.

As at 31 March 2014 the Group had:

- Fixed the interest on \$40 million borrowings from its syndicated bank facility until August 2016 using an interest rate swap designated as a cash flow hedge
- Left \$50 million of its Private Placement notes fixed until June 2015.
- Swapped \$100 million of its Private Placement Notes from \$ fixed to £ floating (\$60 million) and € floating (\$40 million) using an interest rate swap. This is designated as a fair value hedge.

All other borrowings were at a variable rate.

### Interest rate profile

The interest rate profile of the Group's interest bearing financial instruments, as at 31 March 2014 and as at 31 March 2013 are set out below. The classification and balances include the impact of the interest rate swaps.

	2014			2013		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
<b>Financial liabilities</b>						
Interest bearing loans and borrowings						
Current	(0.7)	(15.8)	(16.5)	(1.4)	(10.7)	(12.1)
Non-current	(53.9)	(73.8)	(127.7)	(59.9)	(116.2)	(176.1)
<b>At 31 March</b>	<b>(54.6)</b>	<b>(89.6)</b>	<b>(144.2)</b>	<b>(61.3)</b>	<b>(126.9)</b>	<b>(188.2)</b>
<b>Financial assets</b>						
Cash and cash equivalents	—	0.7	0.7	—	9.3	9.3
<b>At 31 March</b>	<b>—</b>	<b>0.7</b>	<b>0.7</b>	<b>—</b>	<b>9.3</b>	<b>9.3</b>

### Cash flow hedges

#### Fair value of hedging instruments under cash flow hedges as at 31 March 2012:

Assets	1.3
Liabilities	(1.0)
<b>Net</b>	<b>0.3</b>

#### In the year ended 31 March 2013:

Amount removed from equity and taken to income statement in operating profit	(0.3)
Fair value of cash flow hedges taken to equity	(0.4)

#### Fair value of hedging instruments under cash flow hedges as at 31 March 2013:

Assets	1.3
Liabilities	(1.7)
<b>Net</b>	<b>(0.4)</b>

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## **21 Financial instruments** continued

### In the year ended 31 March 2014:

	£m
Amount removed from equity and taken to income statement in operating profit	0.4
Fair value of cash flow hedges taken to equity	1.3

### Fair value of hedging instruments under cash flow hedges as at 31 March 2014:

	1.9
Assets	(0.6)
Net	1.3

### Maturity profile of financial derivatives

	Within 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Interest rate and cross currency swaps hedging Private Placement notes:						
Assets	—	—	—	3.7	—	—
Other interest rate swaps:						
Liabilities	—	—	(0.1)	—	—	—
Forward exchange contracts:						
Assets	1.9	—	—	—	—	—
Liabilities	(0.5)	—	—	—	—	—
<b>At 31 March 2014</b>	<b>1.4</b>	<b>—</b>	<b>(0.1)</b>	<b>3.7</b>	<b>—</b>	<b>—</b>

	Within 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Interest rate and cross currency swaps hedging Private Placement notes:						
Assets	—	—	1.2	—	10.6	—
Other interest rate swaps:						
Liabilities	—	—	—	—	—	—
Forward exchange contracts:						
Assets	1.3	—	—	—	—	—
Liabilities	(1.7)	—	—	—	—	—
<b>At 31 March 2013</b>	<b>(0.4)</b>	<b>—</b>	<b>1.2</b>	<b>—</b>	<b>10.6</b>	<b>—</b>

## 21 Financial instruments continued

### Sensitivity analysis

The sensitivity analysis set out below summarises the impact on:

- Interest expense of a 1% increase/decrease in interest rates on all currencies from their actual levels for the year ended 31 March 2014 and the year ended 31 March 2013
- Group profit before tax of a 10% increase/decrease in the value of the US Dollar and the Euro against Sterling from the actual level for the year ended 31 March 2014 and the year ended 31 March 2013

The sensitivity analysis is based on the following:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments;
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at their fair market value
- Changes in market interest rates affect the fair value of derivative financial instruments designated as hedging instruments
- Changes in the fair values of derivative financial instruments and other financial assets and liabilities are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end

	1% Increase in interest rates £m	1% Decrease in interest rates £m	10% Increase in value of US\$ & € £m	10% Decrease in value of US\$ & € £m
<b>Year ended 31 March 2014</b>				
Impact on Income Statement: (loss)/gain	(1.0)	1.0	6.0	(4.9)
Impact on equity: gain (loss)	—	—	21.0	(17.9)
<b>Year ended 31 March 2013</b>				
Impact on Income Statement: (loss) gain	(1.1)	1.1	5.5	(4.5)
Impact on equity: gain/(loss)	—	—	20.2	(16.6)

### Credit risk

The Group is exposed to credit risk on financial assets such as cash balances (including deposits and cash and cash equivalents) and derivative instruments and on trade and other receivables.

The amounts in the balance sheet represent the maximum credit risk exposure at the balance sheet date. There were no significant concentrations of credit risk at the balance sheet date, as exposure is spread over a large number of counterparties, customers and geographic locations. As such, the Group does not believe its credit risk has materially altered during the year.

The Group identifies counterparties of suitable creditworthiness based on ratings assigned by international credit-rating agencies and has procedures to ensure that only these parties are used, that exposure limits are set based on the external credit ratings, and that these limits are not exceeded.

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## **21 Financial instruments** continued

### **Trade and other receivables**

All operating companies have credit policies and monitor their credit exposure on an ongoing basis. Each operating company performs credit evaluations on all customers seeking credit over a certain amount. Trade receivables are stated net of allowances for doubtful receivables, estimated by local management based on prior experience of customers and assessment of their current economic environment. There are no significant individual allowances for doubtful receivables included within this amount.

For countries with no local operating company presence export credit limits are set and monitored on a country basis monthly by the Treasury Committee.

Given the profile of our customers, whereby credit risk is spread amongst a large number of customers with small balances, no further material credit risk has been identified with the trade receivables not past due other than those balances for which an allowance has been made.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	<b>2014</b> £m	2013 £m
UK	<b>62.7</b>	62.7
Continental Europe	<b>81.5</b>	81.9
North America	<b>32.0</b>	34.5
Asia Pacific	<b>21.4</b>	23.5
	<b>197.6</b>	202.6

The aging of net trade receivables at the reporting date was:

	<b>2014</b> £m	2013 £m
Not past due	<b>149.7</b>	136.0
Past due 0–60 days	<b>40.3</b>	58.0
Past due 60–120 days	<b>4.5</b>	5.9
Past due >120 days	<b>3.1</b>	2.7

The movement in the allowance for impairment in respect of loans and receivables during the year was as follows:

	<b>2014</b> £m	2013 £m
Balance at 1 April	<b>(5.4)</b>	(4.7)
Impairment gain (loss) recognised	<b>0.4</b>	(0.7)
Balance at 31 March	<b>(5.0)</b>	(5.4)

### **Capital management**

The Board's policy is to always maintain a strong capital base, with an appropriate debt to equity mix, to ensure investor, creditor and market confidence and to support the future development of the business. The Board monitors the return on capital, which the Group defines as operating profit as a percentage of net assets plus net debt, and the level of dividends to ordinary shareholders.

The Group's seeks to raise debt from a variety of sources and with a variety of maturities. As at 31 March 2014 the Group had a Revolving Credit Facility of £120 million, \$75 million and €50 million with a maturity of November 2015 and \$65 million of US Private Placement Notes due 2015 and \$85 million due 2017. The Group's debt covenants are EBITA: Interest to be greater than 3:1 and Net Debt: EBITDA to be less than 3.25:1. At the year end the Group comfortably met these covenants.

There were no significant changes in the Group's approach to capital management during the year.

## 22 Deferred tax assets and liabilities

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.

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Property, plant and equipment	—	—	(8.2)	(9.1)	(8.2)	(9.1)
Goodwill	—	—	(57.1)	(57.1)	(57.1)	(57.1)
Retirement benefit obligations	8.2	4.3	—	—	8.2	4.3
Inventories	1.1	1.1	(0.3)	(0.1)	0.8	1.0
Employee benefits	3.1	3.2	—	—	3.1	3.2
Provisions	0.9	0.6	—	—	0.9	0.6
Other items	0.1	1.6	—	—	0.1	1.6
Tax losses	1.7	2.7	—	—	1.7	2.7
Tax assets (liabilities)	15.1	13.5	(65.6)	(66.3)	(50.5)	(52.8)
Set off of tax	(6.2)	(7.1)	6.2	7.1	—	—
Net tax assets (liabilities)	8.9	6.4	(59.4)	(59.2)	(50.5)	(52.8)

The decrease in the net deferred tax liability is largely due to the rate reduction from 23% to 20% (see note 9) and the reduced offset of tax losses due to the fact that they are being utilised. This deferred tax liability is not expected to crystallise in the foreseeable future.

A deferred tax asset has been recognised for tax losses where current projections show that sufficient taxable profits will arise in the near future against which these losses may be offset.

	2014 £m	2013 £m
<b>Unrecognised deferred tax assets</b>		
Tax losses	4.1	8.3

A deferred tax asset has not been recognised in respect of these tax losses which can be carried forward against future taxable income as recoverability is uncertain.

	Balance at 1 April 2013	Recognised in profit and loss	Recognised in other comprehensive income	Exchange gains/losses	Balance at 31 March 2014
Property, plant and equipment	(9.1)	0.6	—	0.3	(8.2)
Goodwill	(57.1)	(5.2)	—	5.2	(57.1)
Retirement benefit obligations	4.3	0.4	3.5	—	8.2
Inventories	1.0	(0.1)	—	(0.1)	0.8
Employee benefits	3.2	(0.4)	0.4	(0.1)	3.1
Provisions	0.6	0.3	—	—	0.9
Other items	1.6	(0.7)	(0.7)	(0.1)	0.1
Tax losses	2.7	(1.0)	—	—	1.7
Net tax (liabilities) assets	(52.8)	(6.1)	3.2	5.2	(50.5)

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## 23 Lease commitments

### 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.

### Operating lease commitments

The Group has entered into non-cancellable leases in respect of plant and machinery, the payments for which extend over a period of up to five years. The total annual rental for 2014 was £7.6 million (2013: £7.5 million). The lease agreements provide that the Group will pay all insurance, maintenance and repairs. In addition, the Group leases certain properties on short and long term leases. The annual rental on these leases was £14.4 million (2013: £14.2 million). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays all insurance, maintenance and repairs of these properties. Operating lease rentals are payable as follows:

	<b>Properties</b>		<b>Plant and machinery</b>	
	<b>2014</b> £m	<b>2013</b> £m	<b>2014</b> £m	<b>2013</b> £m
Within one year	<b>8.3</b>	8.7	<b>6.6</b>	7.0
Within two to five years	<b>15.2</b>	14.1	<b>8.6</b>	7.9
After five years	<b>1.7</b>	1.1	—	—
	<b>25.2</b>	23.9	<b>15.2</b>	14.9

## 24 Related parties

The Company has a related party relationship with its subsidiaries as disclosed in note 16 on page 120 to the Group accounts and with its key management personnel. The key management personnel of the Group are the Directors and the Group Executive Committee. Compensation of key management personnel was:

	<b>2014</b> £m	<b>2013</b> £m
Remuneration	<b>2.8</b>	3.2
Social security costs	<b>0.3</b>	0.5
Equity-settled transactions	<b>0.9</b>	0.7
Pension costs	<b>0.6</b>	0.4
	<b>4.6</b>	4.8

Details of transactions with the jointly controlled entity are given in note 16 on page 120 to the Group accounts.

**25 Share capital**

	<b>2014 Number of shares</b>	2013 Number of shares	<b>2014 £m</b>	2013 £m
Ordinary shares of 10p each:				
Called-up and fully paid:				
At 1 April	<b>438,124,179</b>	436,961,886	<b>43.8</b>	43.7
New share capital subscribed	<b>1,462,277</b>	1,162,293	<b>0.2</b>	0.1
<b>At 31 March</b>	<b>439,586,456</b>	438,124,179	<b>44.0</b>	43.8

All of the new share capital subscribed in the financial year 2014 related to the exercise of share options (note 7).

Details of the own shares held are given in note 9 to the Company accounts on page 143.

**26 Cash and cash equivalents****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 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.

	<b>2014 £m</b>	2013 £m
Bank balances	<b>0.7</b>	9.3
Bank overdrafts	<b>(15.8)</b>	(10.7)
Cash and cash equivalents in the cash flow statement	<b>(15.1)</b>	(1.4)
Finance lease liabilities	<b>(0.7)</b>	(2.1)
Bank loans repayable after more than one year	<b>(37.1)</b>	(62.2)
Private Placement Loan notes due 2015 (4.41%)	<b>(39.3)</b>	(43.4)
Private Placement Loan notes due 2017 (5.14%)	<b>(55.0)</b>	(62.4)
Fair value of swap hedging fixed rate borrowings	<b>3.6</b>	11.8
Net debt	<b>(143.6)</b>	(159.7)
Net pension deficit	<b>(40.9)</b>	(19.0)
Net debt including net pension deficit	<b>(184.5)</b>	(178.7)

The movements on net debt during the year are analysed below:

<b>Analysis of movement in net debt</b>	<b>2014 £m</b>	2013 £m
Net debt at 1 April	<b>(159.7)</b>	(154.2)
Free cash flow	<b>57.7</b>	49.3
Equity dividends paid	<b>(51.4)</b>	(51.3)
Dividends from vested share options	—	(0.7)
New shares issued	<b>1.4</b>	0.6
Own shares acquired	<b>(0.6)</b>	(0.5)
New finance leases	—	(2.0)
Translation differences	<b>9.0</b>	(0.9)
Net debt at 31 March	<b>(143.6)</b>	(159.7)

# Notes to the Group Accounts continued

For the year ended 31 March 2014

## 27 Contingent liabilities

At 31 March 2014 there were no contingent liabilities (2013: none).

## 28 Principal exchange rates

	2014 Average	2014 Closing	2013 Average	2013 Closing
United States Dollar	<b>1.59</b>	<b>1.67</b>	1.58	1.52
Euro	<b>1.19</b>	<b>1.21</b>	1.23	1.19

# Company Balance Sheet

As at 31 March 2014

Company number: 647788

	Note	2014 £m	2013 £m
<b>Fixed assets</b>			
Tangible fixed assets	7	<b>15.6</b>	15.9
Investments	8	<b>294.2</b>	284.8
		<b>309.8</b>	300.7
<b>Current assets</b>			
Debtors: amounts falling due within one year	10	<b>6.8</b>	61.0
Debtors: amounts falling due after more than one year	10	<b>4.2</b>	12.4
Cash at bank and in hand		<b>82.8</b>	76.8
		<b>93.8</b>	150.2
Creditors: amounts falling due within one year	11	(32.1)	(43.2)
<b>Net current assets</b>		<b>61.7</b>	107.0
<b>Total assets less current liabilities</b>		<b>371.5</b>	407.7
Creditors: amounts falling due after more than one year	11	(131.4)	(168.0)
Provisions for liabilities and charges	13	(0.7)	(0.9)
		<b>239.4</b>	238.8
<b>Capital and reserves</b>			
Called-up share capital	16	<b>44.0</b>	43.8
Share premium account	17	<b>41.5</b>	40.3
Retained earnings	17	<b>153.9</b>	154.7
<b>Equity shareholders' funds</b>		<b>239.4</b>	238.8

These accounts were approved by the Board of Directors on 22 May 2014 and signed on its behalf by:

**Simon Boddie**

Group Finance Director

The notes on pages 138 to 145 form part of these Company accounts.

# Notes to the Company Accounts

For the year ended 31 March 2014

## 1 Basis of preparation

The Company accounts have been prepared under the historical cost convention, modified to include revaluation to fair value of certain financial instruments as described below, and in accordance with UK Company Law and UK Generally Accepted Accounting Practice (UK GAAP).

The Group accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and are presented on pages 96 to 136.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

The Company is exempt from the disclosure requirements of FRS 29 (Financial Instruments: Disclosures) on the grounds that the parent undertaking, Electrocomponents plc, includes the Company in its own published consolidated accounts. Disclosures are provided in note 20 under IFRS 7 (Financial Instruments: Disclosures) which comply with the disclosure requirements of FRS 29.

## Translation of foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. 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

### Derivative financial instruments

The Company 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 interest rate swaps which swap certain fixed rate loans into floating rate.

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

Certain derivative financial instruments are designated as hedges in line with the Company'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.

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 profit and loss account 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 profit and loss account. 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 profit and loss account in the same period during which the asset acquired or liability assumed affects profit or loss.

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 profit and loss account.

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 Company uses derivative financial instruments to hedge exposure to interest rate risks arising from financing activities, holding 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.

### Pension costs

The Company participates in Group operated defined contribution and defined benefit pension schemes. The assets of the schemes are held separately from those of the Company in independently administered funds.

### 2 Profit for the financial year

The profit dealt with in the accounts of the Company is £49.8 million (2013: £12.8 million). A separate profit and loss account has not been presented in respect of the Company, as provided by Section 408 of the Companies Act 2006.

Disclosure of the audit fees payable to KPMG Audit plc for the audit of Electrocomponents plc's financial statements is made in note 4 of the Group accounts.

### 3 Employees

#### Numbers employed

	2014 £m	2013 £m
The average number of employees during the year was:		
Management and administration	43	40
Distribution and marketing	—	11
	<b>43</b>	51

#### Aggregate employment costs

	2014 £m	2013 £m
Wages and salaries	3.3	4.2
Social security costs	0.4	0.6
Share-based payments	0.4	1.1
Pension costs	0.6	0.9
	<b>4.7</b>	6.8

The remuneration of individual Directors is detailed on pages 80 and 81.

# Notes to the Company Accounts continued

For the year ended 31 March 2014

## 4 Share based payments

The Company operates share-based payment schemes including the Save As You Earn (SAYE) and the Long Term Incentive Plan (LTIP).

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 profit and loss account charge is then adjusted to reflect expected and actual levels of vesting based on non-market performance related criteria.

All profit and loss account charges relating to options held by members of other Group companies are charged to the appropriate Group company.

The Company has chosen to adopt the exemption whereby FRS 20 Share Based Payments, is applied only to awards made after 7 November 2002.

Details and relevant disclosures of the share-based payment schemes that existed during the year are given in note 7 of the Group accounts.

### Number and weighted average exercise prices of share options

In thousands of options	Weighted average exercise price 2014	Number of options 2014	Weighted average exercise price 2013	Number of options 2013
Outstanding at the beginning of the year	8p	3,097	3p	2,397
Forfeited during the year	164p	(4)	n/a	—
Lapsed during the year	9p	(224)	15p	(550)
Exercised during the year	4p	(1,822)	5p	(373)
Granted during the year	8p	483	15p	1,623
Outstanding at the end of the year	11p	1,530	8p	3,097
Exercisable at the end of the year	n/a	—	n/a	—

The options outstanding at 31 March 2014 have an exercise price in the range 0p to 235p and a weighted average contractual life of 3 years.

The total charge included in the profit and loss account in the year was £0.4 million (2013: £1.1 million). Of the total charge, £0.4 million (2013: £1.0 million) related to equity-settled share schemes and £nil (2013: £0.1 million) related to cash-settled share schemes.

## 5 Pension schemes

The UK defined benefit scheme is described in note 8 of the Group accounts. The last actuarial valuation of the UK scheme was carried out as at 31 March 2010 and has been updated to 31 March 2014 by a qualified independent actuary in accordance with FRS 17. The balance on the UK scheme is included within the balance sheet of RS Components Ltd, a subsidiary of Electrocomponents plc, as it is this company which employs the majority of the scheme members. As allowed by FRS 17, the balance has not been split between Electrocomponents plc and RS Components Ltd as it is not possible to do so on a consistent and reasonable basis. This disclosure therefore relates to the UK pension scheme rather than just the Electrocomponents plc portion of it.

There are no significant differences that have been identified as between IAS 19R (IFRS) and FRS 17 (UK GAAP).

The valuation of the scheme as at 31 March was:

	2014 £m	2013 £m
Total market value of assets	<b>384.9</b>	384.3
Present value of scheme liabilities	<b>(418.6)</b>	(396.7)
Deficit in the scheme recognised in RS Components Limited	<b>(33.7)</b>	(12.4)

## 6 Dividends

	2014 £m	2013 £m
Amounts recognised in the period:		
Final dividend for the year ended 31 March 2013 – 6.75p (2012: 6.75p)	<b>29.5</b>	29.5
Interim dividend for the year ended 31 March 2014 – 5.0p (2013: 5.0p)	<b>21.9</b>	21.8
	<b>51.4</b>	51.3
Proposed dividend for the year ended 31 March 2014 – 6.75p	<b>29.5</b>	

The proposed final dividend is subject to approval by shareholders at the AGM on 24 July 2014 and has not been included as a liability in these accounts.

## 7 Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Computer systems £m	Total £m
<b>Cost</b>				
At 1 April 2013	21.5	9.2	0.5	31.2
Additions	—	—	—	—
At 31 March 2014	21.5	9.2	0.5	31.2
<b>Depreciation</b>				
At 1 April 2013	5.7	9.2	0.4	15.3
Charged in the year	0.3	—	—	0.3
At 31 March 2014	6.0	9.2	0.4	15.6
<b>Net book value</b>				
<b>At 31 March 2014</b>	<b>15.5</b>	—	<b>0.1</b>	<b>15.6</b>
At 31 March 2013	15.8	—	0.1	15.9

# Notes to the Company Accounts continued

For the year ended 31 March 2014

## 7 Tangible fixed assets continued

<b>Net book value of land and buildings</b>	<b>2014</b>	2013
	£m	£m
Freehold land	4.6	4.6
Freehold buildings	10.9	11.2
	<b>15.5</b>	15.8

All classes of tangible fixed assets are depreciated except freehold land.

### 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%
Warehouse systems	10%–20%
Plant and equipment	10%–20%
Computer equipment	20%–33%
Other office equipment	20%

## 8 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.

<b>Cost</b>	<b>Shares £m</b>	<b>Loans £m</b>	<b>Total £m</b>
At 1 April 2013	188.1	127.5	300.2
Additions	1.1	—	1.1
Revaluation	—	(7.1)	(7.1)
At 31 March 2014	<b>189.2</b>	<b>120.4</b>	<b>294.2</b>
<hr/>			
<b>Provisions</b>			
At 1 April 2013	—	15.4	15.4
Released in the year	—	—	—
At 31 March 2014	—	15.4	15.4
<hr/>			
<b>Net book value</b>			
<b>At 31 March 2014</b>	<b>189.2</b>	<b>105.0</b>	<b>294.2</b>
At 31 March 2013	188.1	96.7	284.8

A list of the principal subsidiary undertakings held by the Company is disclosed in note 16 to the Group accounts.

The cost of share-based incentives in respect of shares in the Company granted to employees of Group companies other than Electrocomponents plc, is treated as an increase in investments with the corresponding credit taken directly to reserves. In 2014, this amounted to £1.1 million (2013: £0.9 million).

**9 Own shares****Own shares held**

The Company's own shares held by the Electrocomponents Employee Trust are deducted from shareholders' funds until they vest unconditionally with employees as required by UITF 38: Accounting for ESOP Trusts.

At 31 March 2014, a total of 204,431 (2013: 337,059) ordinary shares in the Company were held by the Electrocomponents Employee Benefit Trust, all of which were under option to employees for a nominal consideration. During the year 239,000 ordinary shares in the Company were purchased by the trustees (2013: 237,417), and 371,628 (2013: 308,775) were disposed of by the trustees. The market value of the shares at 31 March 2014 was £578,540 (2013: £846,018).

**10 Debtors**

	2014 £m	2013 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	<b>5.3</b>	58.4
Prepayments and accrued income	<b>1.5</b>	2.6
	<b>6.8</b>	61.0
Amounts falling due after more than one year:		
Derivative asset	<b>3.7</b>	11.8
Deferred tax asset (see note 13)	<b>0.5</b>	0.6
	<b>4.2</b>	12.4

**11 Creditors**

	2014 £m	2013 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	<b>27.9</b>	39.7
Accruals and deferred income	<b>4.2</b>	3.5
	<b>32.1</b>	43.2
Amounts falling due after more than one year:		
Loans repayable after more than one year (see note 12)	<b>131.4</b>	168.0
	<b>131.4</b>	168.0

**12 Loans**

	2014 £m	2013 £m
Euro bank loans	—	7.6
Sterling bank loans	<b>10.0</b>	24.6
South African Rand bank loans	<b>3.2</b>	3.7
US Dollar bank loans	<b>23.9</b>	26.3
US Dollar Private Placement notes	<b>94.3</b>	105.8
	<b>131.4</b>	168.0
Loans repayable in more than one but not more than two years	<b>76.4</b>	—
Loans repayable in more than two but not more than five years	<b>55.0</b>	168.0
	<b>131.4</b>	168.0

The bank loans are at variable rates of interest and are unsecured.

Details of the US Dollar Private Placement notes are provided in note 21 of the Group accounts.

# Notes to the Company Accounts continued

For the year ended 31 March 2014

## 13 Provisions for liabilities and charges

	Deferred taxation £m	
At 1 April 2013	0.3	
Profit and loss account	(0.1)	
<b>At 31 March 2014</b>	<b>0.2</b>	
	2014 £m	2013 £m
Deferred taxation		
Amounts provided:		
Accelerated capital allowances	0.7	0.9
Share schemes	(0.5)	(0.6)
	0.2	0.3
	2014 £m	2013 £m
Disclosed as:		
Deferred tax asset (note 10)	(0.5)	(0.6)
Deferred tax liability	0.7	0.9
	0.2	0.3

## 14 Lease commitments

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.

At 31 March 2014 the Company had annual commitments under non-cancellable operating leases expiring as follows:

	Motor Vehicles		Land and Buildings	
	2014 £m	2013 £m	2014 £m	2013 £m
Within one year	0.1	—	0.3	0.3
Within two to five years	—	—	1.2	1.2
	0.1	—	1.5	1.5

## 15 Contingent liabilities

Guarantees in respect of bank facilities available to certain subsidiaries up to a maximum of £15.4 million (2013: £16.6 million), of which £11.3 million (2013: £10.3 million) had been drawn down by the end of the year.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contracts as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

**16 Share capital**

	2014 Number of shares	2013 Number of shares	2014 £m	2013 £m
Ordinary shares of 10p each				
Called up and fully paid:				
At 1 April	438,124,179	436,961,886	43.8	43.7
New share capital subscribed	1,462,277	1,162,293	0.2	0.1
<b>At 31 March</b>	<b>439,586,456</b>	438,124,179	<b>44.0</b>	43.8

All of the new share capital subscribed in 2014 related to the exercise of share options.

**17 Reserves**

	Retained earnings				Total £m
	Share premium account £m	Own shares held £m	Hedging reserve £m	Profit and loss account £m	
At 1 April 2013	40.3	(1.1)	1.0	154.8	195.0
Profit for the year	—	—	—	49.8	49.8
Dividends paid	—	—	—	(51.4)	(51.4)
Equity-settled transactions	—	—	—	1.5	1.5
Shares allotted in respect of share awards	1.2	1.0	—	(1.1)	1.1
Own shares acquired	—	(0.6)	—	—	(0.6)
<b>At 31 March 2014</b>	<b>41.5</b>	<b>(0.8)</b>	<b>1.0</b>	<b>153.7</b>	<b>195.4</b>

The own shares held reserve represents the cost of shares in Electrocomponents plc purchased in the market and held by the Electrocomponents Employee Benefit Trust to satisfy options under the Group's share option schemes.

**18 Reconciliation of movements in shareholders' funds**

	2014 £m	2013 £m
Profit for the year	49.8	12.8
Dividends paid	(51.4)	(51.3)
Own shares acquired	(0.6)	(0.5)
Equity-settled transactions	1.5	2.0
Shares allotted in respect of share awards	1.3	0.2
Net (reduction) increase in equity	0.6	(36.8)
Equity shareholders' funds at the beginning of the year	238.8	275.6
Equity shareholders' funds at the end of the year	239.4	238.8

# Five Year Record

Year ended 31 March

£m	2014	2013			
		as restated*	2012	2011	2010
Revenue	<b>1,273.1</b>	1,235.6	1,267.4	1,182.2	972.6
Operating profit	<b>106.1</b>	92.3	128.1	119.8	80.8
Pension changes/reorganisation (income) costs	—	7.4	—	—	(1.6)
Headline operating profit	<b>106.1</b>	99.7	128.1	119.8	79.2
Net financial expense	<b>(5.0)</b>	(5.6)	(5.8)	(5.8)	(4.8)
Profit before tax	<b>101.1</b>	86.7	122.3	114.0	76.0
Pension changes/reorganisation (income) costs	—	7.4	—	—	(1.6)
Headline profit before tax	<b>101.1</b>	94.1	122.3	114.0	74.4
Tax	<b>(29.6)</b>	(27.3)	(37.4)	(35.8)	(23.4)
Profit for the year attributable to the equity shareholders	<b>71.5</b>	59.4	84.9	78.2	52.6
Basic earnings per share	<b>16.3p</b>	13.6p	19.5p	18.0p	12.1p
Free cash flow	<b>57.7</b>	49.3	52.7	57.4	71.9
Non-current assets	<b>342.7</b>	361.5	349.1	333.0	349.3
Current assets	<b>482.6</b>	498.2	501.9	456.1	372.7
Current liabilities	<b>(217.4)</b>	(221.4)	(225.0)	(224.3)	(190.6)
Non-current liabilities	<b>(243.6)</b>	(258.7)	(260.0)	(229.5)	(228.3)
Net assets	<b>364.3</b>	379.6	366.0	335.3	303.1
Number of shares in issue:					
Weighted average (excluding own shares held)	<b>439.1</b>	437.8	436.1	435.3	435.1
Year end	<b>439.6</b>	438.1	437.0	435.7	435.4
Dividend per share (pence)	<b>11.75</b>	11.75	11.75	11.5	11.0
Average number of employees	<b>6,212</b>	6,307	6,340	5,784	5,556
Share price at 31 March (pence)	<b>283.0</b>	251.0	247.8	267.3	220.0

\*Restated for the changes in IAS 19R Employee Benefits. For further details refer to Note 1 to the Group accounts on page 102.

# Registered office, advisers and financial calendar

## REGISTERED OFFICE

Electrocomponents plc  
 International Management Centre  
 8050 Oxford Business Park North  
 Oxford OX4 2HW  
 United Kingdom  
 Tel: +44 1865 204000  
 Fax: +44 1865 207400  
[www.electrocomponents.com](http://www.electrocomponents.com)

## SHAREHOLDER SERVICES

### Registrar

If you have any questions about your shareholding in the Company, please contact our Registrar: Equiniti Ltd, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, United Kingdom. Telephone 0871 384 2158 (+44 121 415 7047 from outside the UK). Lines are open between 8.30am and 5.30pm Monday to Friday excluding UK bank holidays. Calls cost 8p per minute, plus network extras.

### Shareview

To access online information about your shareholdings visit [www.shareview.co.uk](http://www.shareview.co.uk). The website also provides information useful to the management of investments together with an extensive schedule of frequently asked questions. In order to view your shareholdings the shareholder reference number is required which can be found at the top of the share certificate or on the last dividend tax voucher.

### Dividend Reinvestment Plan (DRIP)

Should you wish to reinvest your dividends in the Company, you can take advantage of our DRIP. It will allow you to use your cash dividend to buy more Electrocomponents shares in the market. You will need to complete a DRIP application form and return it to Equiniti. This can be found, together with plan terms and conditions, at [www.shareview.co.uk](http://www.shareview.co.uk) or on our website at [www.electrocomponents.com/investor-centre/shareholder-information/faqs](http://www.electrocomponents.com/investor-centre/shareholder-information/faqs). Alternatively, please contact Equiniti on the number given above, and details and a form will be sent to you.

### Share price information

The latest information on Electrocomponents plc share price is available on our website [www.electrocomponents.com](http://www.electrocomponents.com).

### Investor relations app

The Company offers an app offering instant online and offline access, free of charge, to the Company's latest financial and corporate information on the Apple iPad and iPhone. Details are available on our website at [www.electrocomponents.com/investor-centre](http://www.electrocomponents.com/investor-centre).

## SHARE FRAUD WARNING

Fraudsters use persuasive and high pressure tactics to lure investors into scams.

They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

**5,000 people contact the Financial Conduct Authority (FCA) about share fraud each year, with victims losing an average of £20,000.**

### How to avoid share fraud

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register from [www.fca.org.uk](http://www.fca.org.uk) to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at [www.fca.org.uk/scams](http://www.fca.org.uk/scams).
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.
- **Remember:** if it sounds too good to be true, it probably is!

### Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at [www.fca.org.uk/scams](http://www.fca.org.uk/scams), where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

# Registered office, advisers and financial calendar continued

## FINANCIAL CALENDAR

### Announcement of results

The results of the Group are normally published at the following times:

Half-year results for the six months to 30 September in mid November.

Preliminary announcement for the year to 31 March in late May.

Annual Report and Accounts for the year to 31 March in mid June.

### Dividend payments

Our current policy is to make dividend payments at the following times:

Interim dividend in January and final dividend in July.

2014 final dividend:

Ex-dividend date: 25 June

Record date: 27 June

Annual General Meeting: 24 July

Dividend paid: 29 July

## ADVISERS

### Auditors

KPMG Audit Plc  
15 Canada Square  
London E14 5GL

### Investment bankers

Citigroup  
Citigroup Centre  
33 Canada Square  
London E14 5LB

### Registrars and transfer office

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA

### Solicitors

Linklaters LLP  
One Silk Street  
London EC2Y 8HQ

### Stockbroker

UBS  
1 Finsbury Avenue  
London EC2M 2PP

### Financial PR advisors

Tulchan Communications LLP  
85 Fleet Street  
London EC4Y 1AE

### Remuneration consultants

Kepler Associates  
60 Trafalgar Square  
London WC2N 5DS

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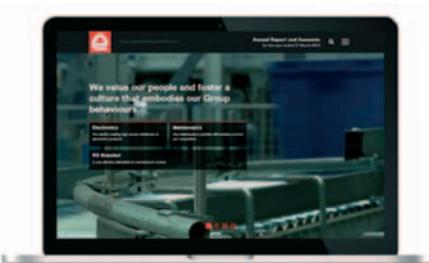
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**www.electrocomponents.com**



To view our online Annual Report 2014 visit:  
**electrocomponents.annualreport2014.com**

## PRINCIPAL LOCATIONS

### United Kingdom

#### UK

[rswww.com](http://rswww.com)

### Global exports

[www.rsdelivers.com](http://www.rsdelivers.com)

### Continental Europe

#### Austria

[www.rs-components.at](http://www.rs-components.at)

[www.rsonline.be](http://www.rsonline.be)

#### Czech Republic

[www.rscomponents.cz](http://www.rscomponents.cz)

#### Denmark

[www.rsonline.dk](http://www.rsonline.dk)

#### France

[rswww.fr](http://rswww.fr)

#### Germany

[www.rsonline.de](http://www.rsonline.de)

### Hungary

[www.rscomponents.hu](http://www.rscomponents.hu)

### Ireland

[rswww.ie](http://rswww.ie)

### Italy

[rswww.it](http://rswww.it)

### Netherlands

[www.rsonline.nl](http://www.rsonline.nl)

### Norway

[www.rsonline.no](http://www.rsonline.no)

### Poland

[www.rspoland.com](http://www.rspoland.com)

### Portugal

[www.rsportugal.com](http://www.rsportugal.com)

### Spain

[www.rsonline.es](http://www.rsonline.es)

### Sweden

[www.rsonline.se](http://www.rsonline.se)

### Switzerland

[www.rsonline.ch](http://www.rsonline.ch)

### North America

#### Canada

[www.alliedelec.com](http://www.alliedelec.com)

#### USA

[www.alliedelec.com](http://www.alliedelec.com)

### Asia Pacific

#### Australia

[www.rsaustralia.com](http://www.rsaustralia.com)

#### Chile

[www.rschile.cl](http://www.rschile.cl)

#### People's Republic of China

[www.rsrc.com](http://www.rsrc.com)

#### Hong Kong

[www.rshongkong.com](http://www.rshongkong.com)

#### India

[www.rsindia.com](http://www.rsindia.com)

#### Japan

[rswww.co.jp](http://rswww.co.jp)

#### Malaysia

[www.rsmalaysia.com](http://www.rsmalaysia.com)

### New Zealand

[www.rsnewzealand.com](http://www.rsnewzealand.com)

### Philippines

[www.rphilippines.com](http://www.rphilippines.com)

### Singapore

[www.rssingapore.com](http://www.rssingapore.com)

### South Africa

[www.rssouthafrica.com](http://www.rssouthafrica.com)

### South Korea

[www.rscomponents.kr](http://www.rscomponents.kr)

### Taiwan

[www.rstaiwan.com](http://www.rstaiwan.com)

### Thailand

[www.rsthailand.com](http://www.rsthailand.com)

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