FORGING AVNET'S FUTURE

AVNET 2000 ANNUAL REPORT

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Major changes are redefining the distribution industry. This year's annual report describes the challenges, as well as the opportunities, relative to those changes. Avnet continues to evolve from its traditional distribution role, emerging as an innovator in the global New Economy, a successful industry consolidator and a leader in global supply-chain management for the electronics industry. The Company's three operating groups – Avnet Electronics Marketing (EM), Avnet Computer Marketing (CM) and Avnet Applied Computing (AAC) – continue to execute and innovate within the global technology marketspace.

Avnet, Inc. (NYSE:AVT) is a leading authorized distributor of semiconductors, interconnect, passive and electromechanical components and computer products from the world's premier manufacturers. Avnet markets its suppliers' products and services to a substantially larger customer base than a supplier's sales force can efficiently handle. The Company provides design engineering services, software/hardware configuration and integration, consulting and a vast array of value-added services, serving original equipment manufacturers, contract manufacturers, value-added resellers and computer system end-users. Avnet employs approximately 11,000 talented people around the globe and is headquartered in Phoenix, Arizona, U.S.A.

FINANCIAL REVIEW 1995-2000

	2000	1999	1998	1997	1996	1995
Income:						
Sales	$9,172.2	$6,350.0	$5,916.3	$5,390.6	$5,207.8	$4,300.0
Gross Profit	1,288.5[c]	948.6[b]	980.4[a]	961.8	969.1	816.4
Operating Income	334.0[c]	173.2[b]	271.2[a]	327.7	349.0	261.5
Income Taxes	109.4[c]	200.8[b]	115.9[a]	130.7	136.8	103.1
Earnings	145.1[c]	174.5[b]	151.4[a]	182.8	188.3	140.3
Financial Position:						
Working Capital	1,969.5	1,517.5	1,461.3	1,319.0	1,293.9	1,057.1
Total Assets	5,244.4	2,984.7	2,733.7	2,594.1	2,521.7	2,125.6
Total Debt	1,937.9	791.5	810.9	514.6	497.5	419.5
Shareholders' Equity	1,902.0	1,397.6	1,315.9	1,502.2	1,505.2	1,239.4
Per Share[d]:						
Basic Earnings [e]	1.77[c]	2.45[b]	1.92[a]	2.15	2.17	1.72
Diluted Earnings [e]	1.75[c]	2.43[b]	1.90[a]	2.12	2.15	1.66
Dividends	.30	.30	.30	.30	.30	.30
Book Value	21.53	19.85	18.05	18.28	17.34	15.19
Ratios:						
Operating Income Margin on Sales	3.6%[c]	2.7%[b]	4.6%[a]	6.1%	6.7%	6.1%
Profit Margin on Sales	1.6%[c]	2.7%[b]	2.6%[a]	3.4%	3.6%	3.3%
Return on Equity	8.7%[c]	13.2%[b]	10.4%[a]	12.0%	13.3%	12.0%
Return on Capital	6.4%[c]	9.4%[b]	8.3%[a]	10.1%	11.0%	10.1%
Quick	1.0:1	1.6:1	1.6:1	1.5:1	1.6:1	1.6:1
Working Capital	2.0:1	2.9:1	3.4:1	3.3:1	3.5:1	3.3:1
Total Debt to Capital	50.5%	36.2%	38.1%	25.5%	24.8%	25.3%
Number of Employees	10,900	8,200	8,700	9,400	9,500	9,000
Sales Per Employee ($ Thousands)[f]	935	722	659	573	556	487

(a) Includes the net negative impact of $14.9 pre-tax and $12.5 after-tax ($0.16 per share on a diluted basis) for (i) the gain on the sale of Channel Master of $33.8 pre-tax and $17.2 after-tax, (ii) costs relating to the divestiture of Avnet Industrial, the closure of the Company's corporate headquarters in Great Neck, NY, and the anticipated loss on the sale of Company-owned real estate, amounting to $13.3 pre-tax and $8.5 after-tax, and (iii) incremental special charges associated with the reorganization of the Company's Electronics Marketing Group, amounting to $35.4 pre-tax and $21.2 after-tax.

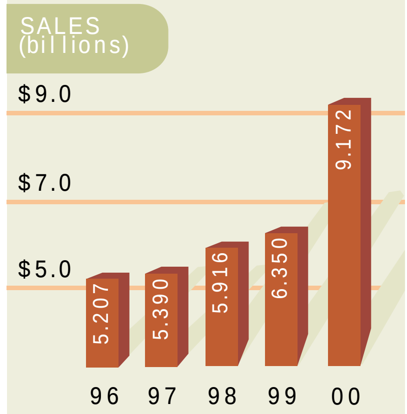
(b) Includes the net gain on exiting the printed catalog business recorded in the fourth quarter of fiscal year 1999 offset by special charges recorded in the first quarter associated with the reorganization of the Company's Electronics Marketing Group. The net positive effect on fiscal 1999 pre-tax income, net income and diluted earnings per share were $183.0 million, $64.0 million, and $0.89, respectively.

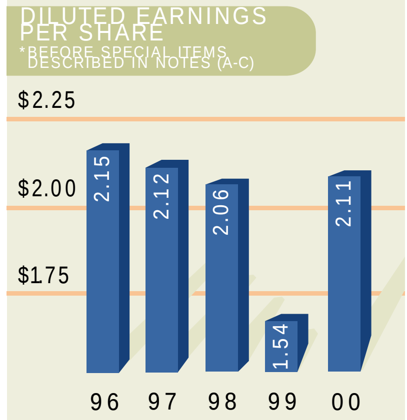
(c) Includes special charges associated with (i) the integration of Marshall Industries, SEI Eurotronics and Macro into Electoronics Marketing (EM), (ii) the integration of JBA Computer Solutions into Computer Marketing North America, (iii) the reorganization of EM Asia, (iv) the reorganization of EM's European operations including cost related to the consolidation of EM's European warehousing operations and (v) costs incurred in connection with certain litigation brought by the Company. The total special charges for fiscal 2000 amounted to $49.0 million pre-tax, $30.4 million after-tax and $0.37 per share on a diluted basis.

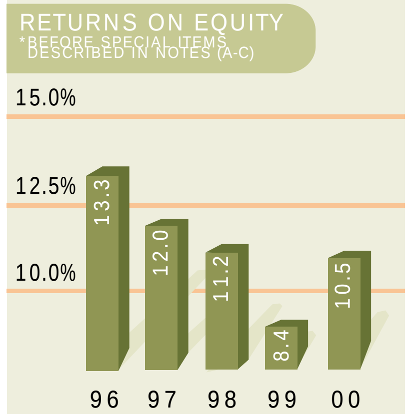
(d) All share and per share data have been restated to reflect a two-for-one split of the Company's common stock approved by the Board of Directors on August 31, 2000 and to be distributed on September 28, 2000 to shareholders of record on September 18, 2000.

(e) Earnings per share have been restated to conform with the provisions of SFAS No. 128, "Earnings Per Share."

(f) Calculated based on annual sales divided by the average number of employees during the period.







Powered by the dual engines of organic growth and acquisitions, Avnet is a Global Industry Leader.

TO OUR SHAREHOLDERS

What a year! Fiscal 2000 has truly been a watershed year for Avnet. Record sales. Record earnings. Strategic, unprecedented acquisitions around the world. Exciting Internet alliances expand our reach into the greater global technology marketspace. Avnet is in a global leadership position.

Driven by the cyclical upswing in the semiconductor industry, post-Y2K recovery in the computer market and strong acquisition growth, Avnet achieved $9.2 billion in sales this fiscal year, a 44 percent increase over last year. The Company saw its first billion-dollar sales month in March. Considering results before special charges, Avnet also posted record net earnings 59 percent greater than FY'99. Record earnings per share in the fourth quarter heralded a return to annual growth – Avnet finished the year at $2.11, up from $1.54 in FY'99. Also in the final quarter, the Company's operating margin reached 5.2 percent; and for the full year FY'00 performance was 4.2 percent, up 36 basis points over FY'99. Net operating profit after tax return on working capital was up 184 basis points. Return on capital employed increased 87 basis points, and return on equity was up more than 200 basis points. All reflect excellent progress for the year.

Returning to double-digit organic growth in FY'00. Avnet is, at its heart, a very successful electronics distribution, marketing and services company. We are also a dynamic industry consolidator, integrating seven acquisitions contributing more than $1.7 billion in sales to the FY'00 results. Avnet is, in effect, a company powered by dual engines as we charge into the new millennium.

Driving our organic growth are some external and internal factors.

The electronic components industry has emerged from the worst downturn in the history of the semiconductor market. Dataquest predicts a bright future through 2003 on the strength of demand for PCs, cellular telephones, communications and data processing applications. For a company like ours, which derives more than 60 percent of its revenue from semiconductors, this is great news. In fact, Avnet Electronics Marketing posted a record year; global sales for FY'00 were approximately $6.6 billion, an increase of 38 percent over FY'99. Strong booking and billing trends, continued product allocations and rising average selling prices are indicative of another robust year.

Phoenix, Arizona, Headquarters

Avnet is the number one value-added distributor of electronic components in North America – and the number one global value added distributor of IBM mid-range computing products in the world.

Avnet is a dynamic industry consolidator, integrating seven acquisitions contributing more than $1.7 billion in sales this year.

Embedded systems technicians working at the new Avnet Applied Computing Lab, Network Operating Center, Tempe, Arizona.

Electronics Marketing's supply-chain management arm, Integrated Material Services (IMS), continues its explosive global growth. In the United States alone, IMS has achieved growth of more than 40 percent per year compounded annually. IMS ended FY'00 at approximately $2.6 billion in sales, positioning Avnet as a premier material manager in the electronics industry supply chain.

The Asian electronics market is booming, and Avnet's business in the AsiaPac region is growing even faster. Asia, including Japan, is now the world's largest and fastest growing economic region. China is the world's second-largest national economy. We are excited about our relationship with ChinaECNet, a Chinese government-sponsored Internet venture that selected Avnet as its exclusive source of non-Chinese products, logistics and technical services to indigenous Chinese original equipment manufacturers (OEMs).

Avnet's EMEA region (Europe, the Middle East and Africa) is progressing. This follows an intense period of focus on upgrading to SAP 4.0, a multi-lingual, multi-currency client/server system that allows us to operate across the continent and in Asia using a single, IT platform.

Y2K is behind us. While the millennial turnover did not materially affect Avnet's operations, anticipation of the event and a resultant slump in sales negatively impacted Avnet Computer Marketing (CM) for most of the fiscal year. We are now, however, seeing a return to robust growth rates in sales and profits for CM, and FY'01 is being ushered in by a strong second half of FY'00.

Realignment of this operating group has delivered a greater focus on key suppliers at Hall-Mark Global Solutions (rebranded Avnet Hall-Mark), and on the end-user solutions integration business, Avnet Computer (rebranded Avnet Enterprise Solutions).

We launched our newest operating group, Avnet Applied Computing (AAC), to serve the embedded systems market. Since realigning our business to focus on this high growth opportunity, AAC has grown operating profits sequentially each quarter. More importantly, we have laid the foundation for what should be a very exciting and productive billion dollar-plus global operating group for Avnet.

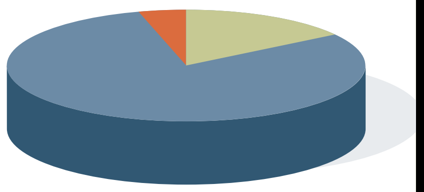
There are many highlights to share from each of our three operating groups, and I invite you to read more about them in the succeeding pages of our Annual Report. Suffice it to say, I'm very proud of our employees' contributions to Avnet during this unprecedented, dynamic and demanding fiscal year, and I welcome our new employees as we embark on yet another exciting 12 months.

Now, on to the second of the dual engines, acquisitions.

Driven by the globalization of our customers and suppliers and our chosen role as industry consolidator, Avnet's acquisition strategy is moving full steam ahead. This year, we've integrated companies in Europe, Asia and the Americas: Integrand Solutions (Australia); SEI Macro Group (UK); Marshall Industries (US); Matica S.p.A. and PCD Italia S.r.l. (Italy); Eurotronics, which did business as SEI (Netherlands); SEI Nordstar (Italy); and Cosco Electronics/Jung Kwang (Korea). Through these acquisitions, we have expanded our customer and supplier base, strengthened relationships, increased our global reach and added the invaluable intellectual capital of thousands of talented, knowledgeable employees. We have become the number one value-added distributor of electronic components in North America and, with our acquisition of Savoir Technology Group, Inc. (US) just after the fiscal year ended, the number one value-added distributor of IBM mid-range computing products in the world. The pending acquisition of EBV Elektronik, WBC, Atlas Services (Europe) and Raab Karcher Electronic Systems (RKE), announced on August 7, 2000, will further strengthen the position of all three of Avnet's operating groups throughout Europe with historical revenue of approximated $1.8 billion.

Additionally, while acquisitions can be difficult to complete and challenging to integrate, Avnet has built a core competency in this arena. All our current acquisitions are planned to be accretive to earnings immediately, or within their first year of integration, and deliver return on capital employed that meets or exceeds our targets. Marshall Industries was fully integrated with Avnet's systems one full quarter ahead of schedule and brought the Company over $85 million in annualized cost synergies by the end of fiscal 2000. That acquisition, along with the others, helped produce the lowest selling, general and administrative expenses (SG&A) as a percent of sales in our history, ending FY'00 at 9.2 percent for the fourth quarter.

AVNET, INC. FY 2000
WORLDWIDE SALES



	$ billions	% of Avnet
EM	6.64	72.4%
CM	1.86	20.3%
AAC	0.67	7.3%

By the latter half of the decade, successful enterprises will have integrated the Internet into their processes such that e-business will be totally embedded in all activities. Avnet expects to lead the way as the industry shifts to the click-and-mortar model.

GLOBAL OBJECTIVES

Financial

- *Exceed expectations in creating and sustaining shareholder value*

Customers and Suppliers

- *Grow profitably by executing existing strategies and continuously creating new service value propositions that differentiate Avnet in the global technology marketspace.*

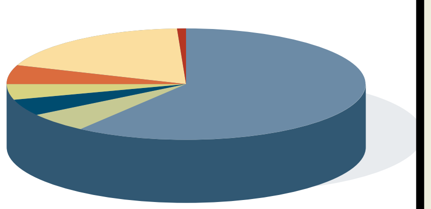
Employees

- *Attract, retain and continuously develop a highly skilled, disciplined, global workforce.*

Operational Excellence

- *Continuously develop and implement world-class business processes that maximize service, productivity and efficiency.*

AVNET, INC. FY 2000 SALES BY PRODUCT



	% of Avnet
Semiconductors	64%
Computer Products	20%
Interconnect	7%
Passives	3%
Embedded Systems	3%
Electromechanical	2%
Other	1%

Just as acquisitions allow us to expand globally, our strategic alliances – along with the development of Avnet's own Web sites, Intranet and extranets – allow us to expand our position in the greater technology marketspace. The Company continues to be recognized as an information technology leader. The Gartner Group predicts that, by the latter half of the decade, successful enterprises will have integrated the Internet into their processes such that e-business will be totally embedded in all activities. Avnet expects to lead the way as the economy shifts from the traditional brick-and-mortar environment to the click-and-mortar model of the 21st century.

To that end, FY'00 saw the addition of four new e-business alliances, with more on the horizon. By taking equity positions in dot-com companies which offer new business models complementary to our own, Avnet participates in, and can even help direct the development of, important hubs, portals and links on the Web. Avnet is delivering new value through the Internet. We're making it easier than ever for our customers and suppliers to do business with us.

As we continuously improve our current business models and seek out new ones to further expand our business, the breadth and depth of knowledge of our 12-member board of directors is instrumental. For FY'01, we welcome two new members: Ray M. Robinson, president of AT&T's southern region; and Gary L. Tooker, who served as Motorola's CEO, chairman and vice chairman of the board before retiring at the end of 1999. Collectively, Robinson and Tooker bring Avnet more than 70 years of experience, through distinguished careers with highly respected global corporations. We will be saying goodbye to Frederick Wood and Joseph F. Caligiuri, who are retiring. Their insight has been invaluable.

The insight of our board, the expertise of our employees and the industry knowledge of our leaders will guide us as we tackle new challenges and opportunities in the upcoming fiscal year. Around the world, talented, technically skilled employees are at a premium. Our human resources departments are focused on attracting and retaining the best people, and on creating employee development programs that keep them motivated and their skills contemporary.

In FY'01, we will focus on Avnet's return on capital employed. By insisting that all our operations generate adequate returns on capital as well as sales, we are, in effect, planning for Avnet's future – a future that will bring more innovation to our Company, help us counteract the cyclicality inherent in the electronic components industry, and subsequently, increase our value to our shareholders.

With the positive business environment, the excellent performance of our operating groups and our aggressive acquisition strategy, Avnet is on a $12 billion-plus sales run rate for FY'01, with the opportunity to achieve more through organic growth and acquisition. Our twin engines are primed – good, old-fashioned internal growth driven by the strategic planning and solid execution that is our culture, and continued acquisitions/alliances around the world. This combination makes for very exciting prospects in the new millennium.

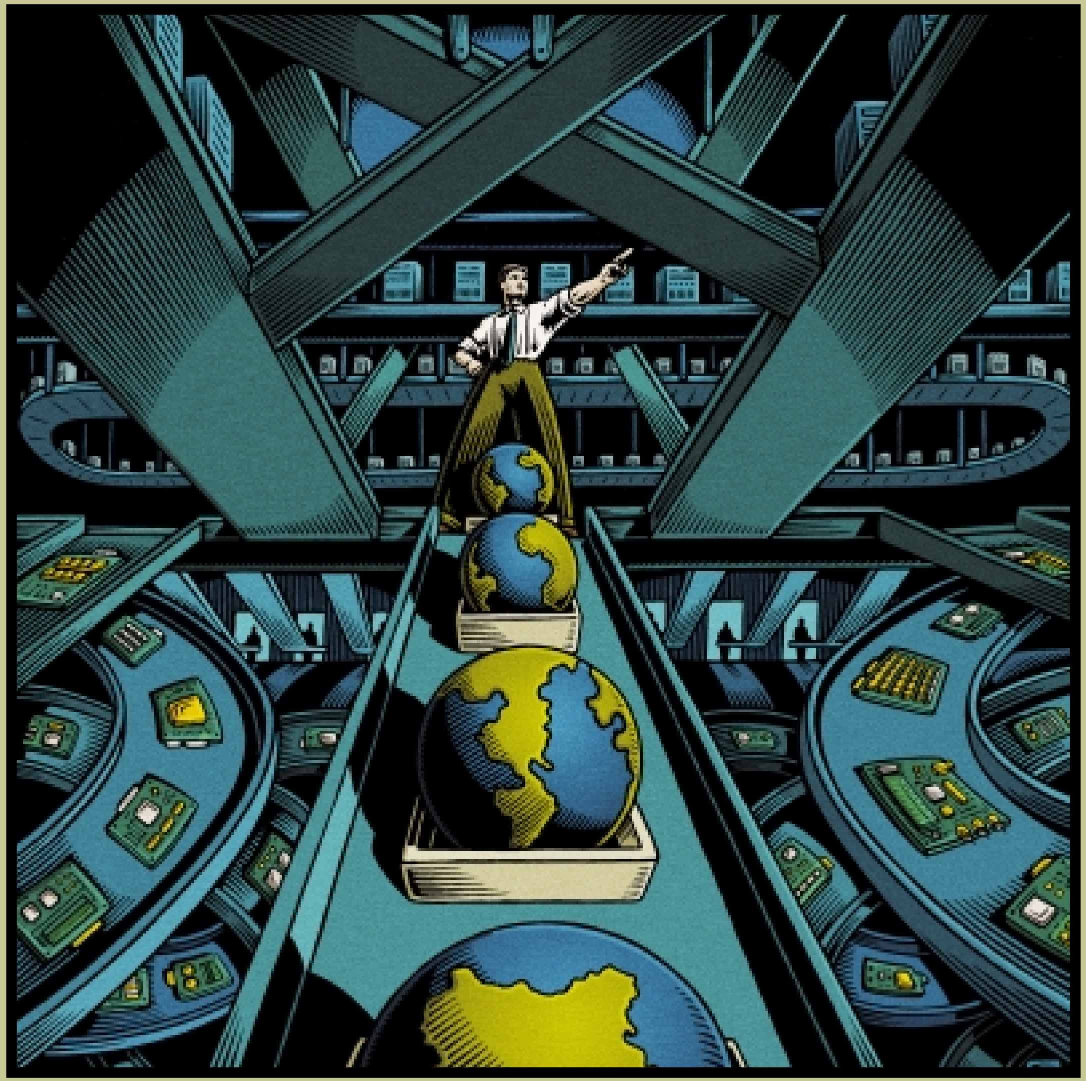
In FY'01, it continues to be Avnet's vision to deliver the highest value relationships to our customers, suppliers, employees and shareholders globally. I personally invite you to join in and come along for the ride.

Roy Vallee
Chairman and Chief Executive Officer

Roy Vallee

By insisting all our operations generate adequate returns on capital as well as sales, Avnet is planning for its future – one that will bring more innovation, counteract the cyclicality inherent in the electronic components industry and increase shareholder value.

Avnet will not only survive, it will thrive as an industry leader in the 21st century.



RESHAPING AVNET

FORGING THE FUTURE

Like a blacksmith forging a new tool from his molten medium, so too, is Avnet forging a new company from the raw materials of its past. No longer the parts-centric distributor of its industrial age roots, Avnet is well on its way to becoming a premier technology, marketing and services company of the Web-enabled New Economy.

For more than 80 years, Avnet has embraced technology, evolving to meet the opportunities it has brought to our work and our world. Founded on New York City's Radio Row in the 1920s when Charles Avnet began selling surplus radio components to ham radio enthusiasts, by the time it was incorporated in 1955, Avnet had become a distributor of choice for a wide range of electronic devices including connectors, electromechanical devices and tantalum capacitors. Avnet continued to gain in stature through the semiconductor and microprocessor revolutions of the 1960s and '70s. During the late 1980s and throughout the 1990s, a tremendous upsurge in demand for computer products and other electronics products created a strong environment in which to grow. That demand, coupled with the desire of customers and suppliers to outsource non-core functions like materials procurement, inventory management and logistics, gave Avnet an opportunity to spread its wings. By offering customers and suppliers a full complement of services such as finance, inventory management, marketing and logistics, technical support and engineering, Avnet added value to the components and newly added computer products at the core of the Company's business. Most recently, as the Information Age opened borders and closed distances around the world, Avnet expanded with its customers and suppliers as they globalized their operations to seize opportunities and meet market demands.

Avnet has played a pivotal role in supplying and adding value to the electronic components and computer products which helped fuel the growth of the greatest technological innovations of the 20th century – radio, television, communications devices, the transportation and consumer products industries, aerospace and military technology and, of course, the personal computer. What will the 21st century bring? More innovation. New services. Newer technology, and therefore new products and services to sell. And Avnet will be there, shaping and leading the markets in which it chooses to compete. Avnet will not only survive, it will thrive.

The Information Age is opening borders and closing distances around the world. Avnet is expanding with its customers and suppliers as they continue to globalize their operations to seize opportunities and meet market demands.

CATALYSTS OF CHANGE

Globalization/Industry Consolidation

Internet/New Economy

Collaboration

Innovation/New Value Propositions

People

Today, there are major forces of change at work in the global technology marketspace. Their effects can be seen throughout Avnet, from the design of the Company's systems to the complement of its global workforce, from its competitiveness and ability to create shareholder value to the very fabric of its strategy. These forces are:

GLOBALIZATION

As customers and suppliers continue to globalize their operations, their need for expanded and improved services increases. Global expansion through strategic acquisitions has not only consolidated the electronics and computer distribution industry, it has given Avnet the ability to meet those needs around the world.

INTERNET

The Internet radically alters market dynamics as the New Economy takes hold. It is transforming how companies execute core business processes, how consumers shop for and purchase goods and services, how value is created and distributed within industries, and ultimately, how the global economy is structured.

COLLABORATION

Trends in outsourcing and the migration from linear supply chains to multi-directional value webs that the Internet has fostered are prompting novel collaborative relationships.

INNOVATION

Innovation is driving the creation of new value propositions such as Avnet's newest operating group, Applied Computing. The best way to lead in new markets is to create them. Innovation is propelling the adoption of sophisticated information technology systems like SAP, and intensifying the focus of the Company's attention on shareholder concerns like return on capital employed and earnings per share.

PEOPLE

Avnet achieved $1 million in sales per employee for the fourth quarter of FY'00, a testament to the high productivity, efficiency and skill of its talented and diverse global workforce. The Company strives to attract, retain and continuously develop highly skilled people, and actively seeks innovative ways to do so. People are Avnet's most important attribute and its biggest differentiator.

GLOBALIZATION

INDUSTRY CONSOLIDATION

Just a decade ago, Avnet was strictly a North American enterprise. As the Company's suppliers and customers began to globalize their own operations, their need for expanded and improved services increased. Avnet soon followed suit to ensure it could meet their needs. Ten years and almost 40 acquisitions later – along with a healthy organic growth rate – Avnet now serves more than 100,000 customers in more than 60 countries from more than 250 locations around the world.

ACQUISITIONS

Fiscal 2000 saw the completion of seven acquisitions, including the largest in the history of the electronics distribution industry, Marshall Industries. These acquisitions contributed more than $1.7 billion in sales for FY'00. They expanded the reach of all three operating groups and strengthened Avnet's value propositions in the Americas, Asia and EMEA (Europe, the Middle East and Africa) faster than would have been possible through organic initiatives alone.

MARKET LEADERSHIP

Business is migrating to the most efficient providers of goods and services. As Avnet continues to acquire companies that support its vision, the Company plays an important role as industry consolidator, with market leadership a natural result.

With sales of $6.6 billion, Avnet Electronics Marketing is the largest value-added distributor of electronic components in North America and has advanced to a strong number two position in Europe. The pending acquisitions of EBV Elektronik, WBC, Atlas Services and Raab Karcher Electronic Systems in Europe, announced on August 7, 2000, stand to strengthen that position even further. The acquisition of Savoir Technology Group, Inc. in the United States just after the fiscal year ended also positioned the Company the number one value-added distributor of IBM mid-range computing products globally.

By carefully choosing companies and strategies that add to Avnet's value propositions, the Company realizes key benefits – a broader customer base, an extensive line card with an unparalleled depth of inventory, expanded value-added service offerings, the knowledge of talented employees, and world-class information technology capabilities.

FY'00 ACQUISITIONS

Cosco Electronics/Jung Kwang (Korea)

Eurotronics (SEI) (Netherlands)

Matica S.p.A/PCD Italia S.r.l. (Italy)

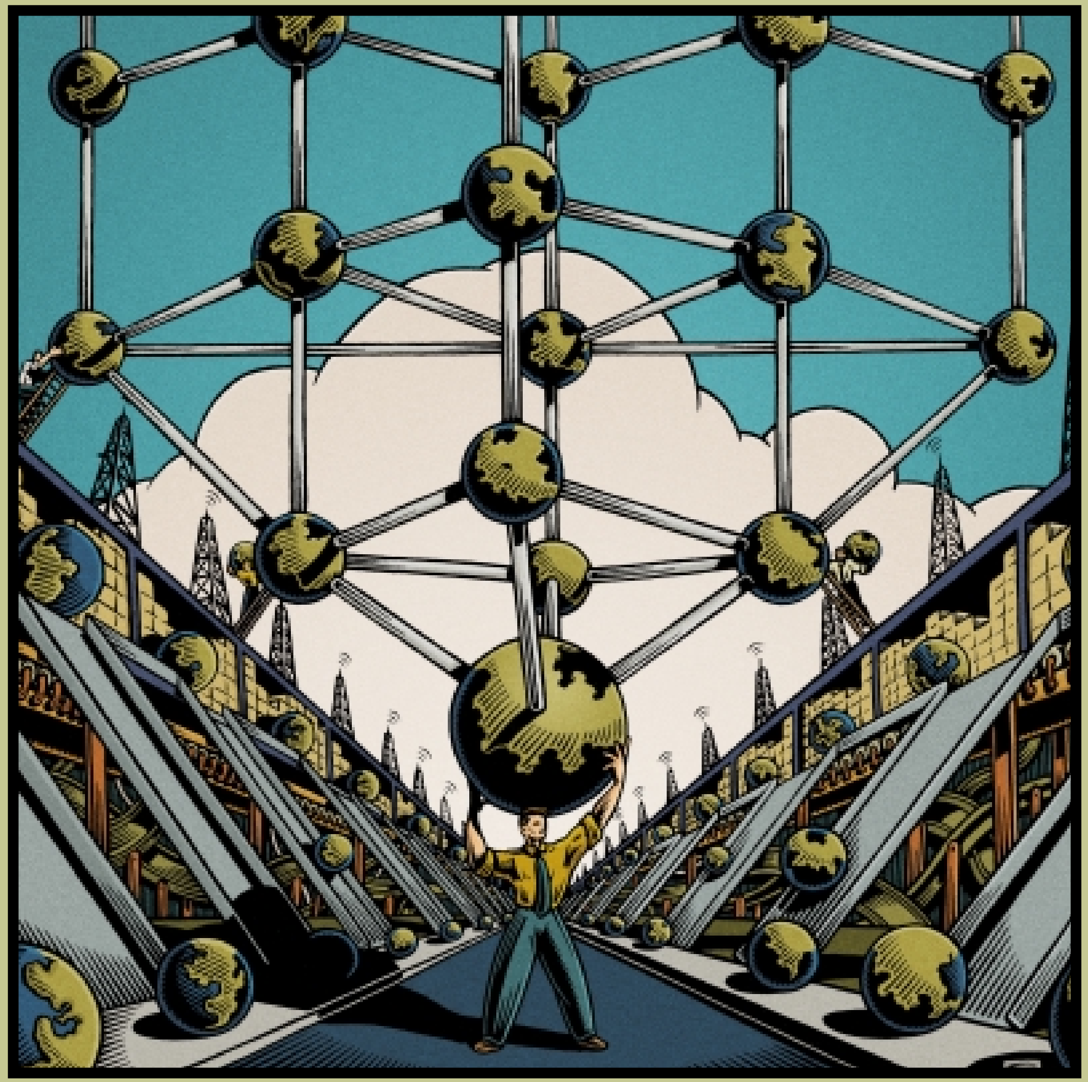
Marshall Industries/Sterling Electronics (US)

SEI Macro Group (UK)

Integrand Solutions (Australia)

SEI Nordstar (Italy)

Avnet is at the center of the value web in the interconnected marketplace of the new economy.



THE INTERNET

THE NEW ECONOMY

Globalization, acquisition, consolidation…what has made it all possible? In a word, technology.

And now the Internet radically alters market dynamics as the New Economy takes hold. It is transforming how companies execute their core business processes, how consumers shop for and purchase goods and services, how value is created and distributed within industries, and ultimately, how the global economy is structured. The Gartner Group reports that business-to-business (B2B) commerce over the Internet is projected to rise as high as $7.3 trillion in 2004. Internet-based transactions already encompass and facilitate the entire purchasing cycle, providing everything from product information to post-sale customer support. No greater agent of change has affected business as a whole, and the electronics industry in particular, than the Internet.

As electronic component suppliers and original equipment manufacturers (OEMs) reach out to emerging consumer markets and take advantage of various countries' manufacturing efficiencies, their supply chains must be able to rapidly and efficiently accommodate their demands anywhere in the world they choose to do business. Avnet is embracing the Internet and the New Economy, taking advantage of the enabling communications technology of the wired world to enhance the product development, manufacturing, supply-chain management and customer service needs of global customers and suppliers.

At a very fundamental level, Avnet's strategy has always been to occupy as much space on the supply chain as possible by creating services that connect suppliers to customers, integrating the physical flow of the products Avnet sells to customers around the world. In the wired world, that supply-chain model is changing. The linear nature of the chain is evolving into a broader, more complex structure – a value web characterized by an interconnected marketplace where the boundaries between buyers and sellers blur, and where model configurations change with the rapidity of the latest technological advance. Avnet is at the center of this value web.

Avnet embraces the New Economy and its enabling technology, using it to enhance customers' and suppliers' product development, manufacturing, supply-chain management and customer service needs.

Buckaroo.com

(Strategic alliance/equity investment)

Bid/ask exchange for digital commodities enabling participants to make accurate pricing, purchasing and selling decisions in a neutral, efficient and orderly market, and giving them trade, payment and delivery integrity.

www.avnet.com

According to Forbes, avnet.com is one of the 25 "Best of the Best" in the computer/electronics industry. Avnet was the only distributor so recognized.

INTEGRATING THE VALUE WEB

Just as Avnet operates as an industry consolidator on a global level, so, too is it a value web integrator.

The technology and emerging business models fostered by the Internet are enabling Avnet to better serve its customers and suppliers. The Internet has certainly transformed distribution channels. It has not, however, eliminated a fundamental need: customers must have a significant amount of value added to most suppliers' products before they can use them.

There are a number of Web sites that trade, fundamentally, in information alone. Avnet's web site, www.avnet.com, is a first-rate source of information and B2B expertise. Importantly, however, the Company also provides value-added services and integrates the product, information, financial and physical logistics flows that characterize today's global Just-in-Time and Build-to-Order manufacturing environment.

Just after the fiscal year closed, the Company launched its Avnet FasTrac™ Web portal, a primary information source for customers needing engineering information from Avnet or its suppliers. Its goal: help engineers design, develop and deploy their products to get them to market before their competition. Customers can place orders, access order status information and communicate with others to determine the latest information on new products, end-of-life status and more. And Avnet FasTrac is but one part of the package. Demand planning, design and component procurement assistance, information sourcing, logistics, physical value-add, integration, marketing and materials management – all enhance Avnet's relationships.

Further, Avnet's value in the value web goes well beyond the ease in online purchases offered through catalogues, auctions and exchanges. That ease may trump all other value for transactions like material spot buys and standalone maintenance and repair operations procurement, but procuring product is often only one small part of the equation. The connected marketplace demands that all participants concentrate on core competencies, products and services and forge relationships that provide complementary – and very necessary – competencies, products and services of their own. Avnet provides the vital services that our customers and suppliers cannot, or do not wish to do themselves.

Customers have been outsourcing materials procurement, in-bound logistics, materials management, physical value-add, prototype builds and supply-chain services to Avnet for many years, and continue to do so at an increasing rate. Suppliers have outsourced sales, marketing, customer relationship management, demand creation activities, credit services and now, their own materials logistics and warehouse management.

Avnet has demonstrated its ability to provide all these services, along with the electronic components and computer products they surround, in a more efficient manner than our customers and suppliers can themselves. The Company's long history of attracting and retaining the loyalty of the industry's major buyers and suppliers demonstrates the importance of established supplier/distributor/ customer relationships.

Bottom line: it's not just about a fancy Web site, it's about business. And in business, the time-tested rules still apply. Avnet is tightly integrated into the information, financial and, most critically, material flows of the electronics value web, and its proven business savvy offers an established, sustainable competitive advantage.

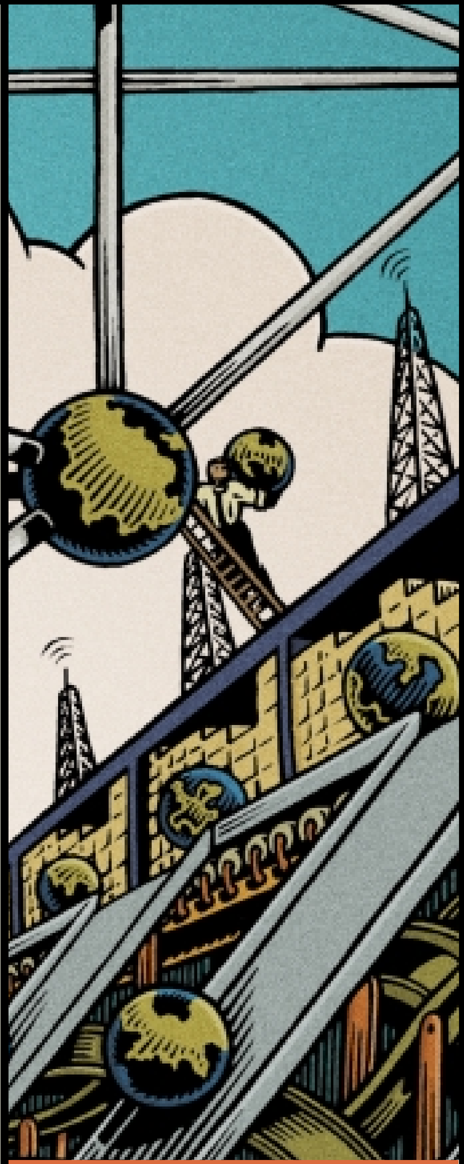
FROM BRICKS TO CLICKS

A global physical presence. More than $1.8 billion dollars in inventory and the proven services that add value to it. More than a million square feet of warehouse space around the world, with a quarter of that dedicated to value-added services. This is the mortar that underlies today's Avnet, the substance that makes Avnet far more than just an information broker. It is the foundation that gives the Company the power to transform itself from a distribution, or brick-and-mortar company, to an e-fulfillment, or services led click-and-mortar enterprise.

Make no mistake, Avnet intends to be the partner of choice for its customers and suppliers in this wired world. By creating Internet-enabled processes more efficient than that of any other online marketplace, Avnet will compete even more effectively in the interrelated flows at work in the value web.

IT LEADERSHIP

Avnet continues to invest in core areas that build its foundation for e-business and satisfy the global needs of its customers and suppliers. As the Company



eConnections.com

(Strategic alliance/equity investment)

Streamlines the complex process of bringing a product to market by giving supply-chain partners a custom tailored, integrated, independent, private marketspace to smooth communication, cut costs and build margin for customers and suppliers.

Viacore.com
(Strategic alliance / equity investment)

A supply-chain process service provider that enables deep, quick and efficient electronic process integration between disparate trading partners. Together with its strategic investors, Viacore is the first to bring to market the rapid, pervasive and cost-effective deployment of RosettaNet Partner Interface Processes (PIPs), a set of XML-based dialogues that define how business processes are communicated.

has expanded around the world, it has pursued a three-pronged strategy in establishing its e-business and information technology leadership: establishing a global SAP platform; Web-enabling its operating groups via internal and external connections and tools; and establishing collaborative relationships in the Internet marketspace.

Avnet is creating a single, global, multi-currency, multi-lingual information technology enterprise resource planning (ERP) platform that supports the Company's full suite of products and services. Avnet's conversion to the SAP 4.0 client / server is complete in Europe and Asia. Planning in the Americas is underway.

The Company continues to create Intranet and extranet connections facilitating the flow of vital information internally and externally, with Avnet's customers, suppliers and vendors. In 1993, Avnet began building a private wide area network (WAN) to give employees access to vital information regardless of location. The WAN, which also provides access to the Company's Intranet site, now connects all Avnet locations in Europe and Asia; the Americas should be fully on board in FY'01. Avnet's Global Data Warehouse (GDW) allows the Company to consolidate information throughout Avnet into a single database. The information is then used for a number of purposes, including optimizing inventory, demand planning using forecast data and customer relationship management.

For example, by coupling the power of the GDW with the latest online analytical programming software, Avnet can balance its inventory based on current and projected need anywhere in the world. And Avnet's Electronic Commerce Gateway allows customers and suppliers to send and receive e-commerce transactions in any format they choose, adding flexibility to the lineup. The Company is also continuously upgrading employees' desktops worldwide to optimize their efforts as new technological innovations become available.

As the third aspect of its three-pronged strategy, Avnet is establishing strategic relationships with complementary enterprises in the Internet marketspace. This year, Avnet has accelerated the pace of its equity investments and / or alliances with dot-com enterprises that complement the Company's own offerings and extend Avnet's reach even further into the global technology marketspace: Buckaroo.com, eConnections.com, Viacore.com and China ECNet (see sidebars).

Avnet is also collaborating in RosettaNet with more than 250 industry participants, including powerhouses like Cisco Systems, Inc., Intel Corp., Federal Express Corp. and IBM Corp. RosettaNet, which operates in the information technology and electronic component realms, is an independent, non-profit consortium dedicated to the development and deployment of standard electronic business interfaces to form a common e-business language and align processes between supply-chain partners on a global basis.

Avnet has received a number of accolades throughout the fiscal year for the Company's information technology leadership. For the fourth consecutive year, Avnet has ranked among the '100 Best Places to Work in IT,' according to *Computerworld* magazine's 2000 survey. *InformationWeek* ranked Avnet 4th among the Top 500 Technology Innovators in the United States for 2000, up from 14th in 1999. And Avnet's Web site, www.avnet.com, was listed among the most promising and competitive B2B Web sites from 25 industries by *Forbes* magazine. According to *Forbes*, avnet.com is one of the 25 'Best of the Best' in the computer / electronics industry – and was the only distributor recognized in the category. Two of Avnet's strategic Internet alliances forged in FY'99, ChipCenter and QuestLink, also made the list. Each company was judged on its strategy, execution and financial staying power, as well as the quality of the Web site itself.

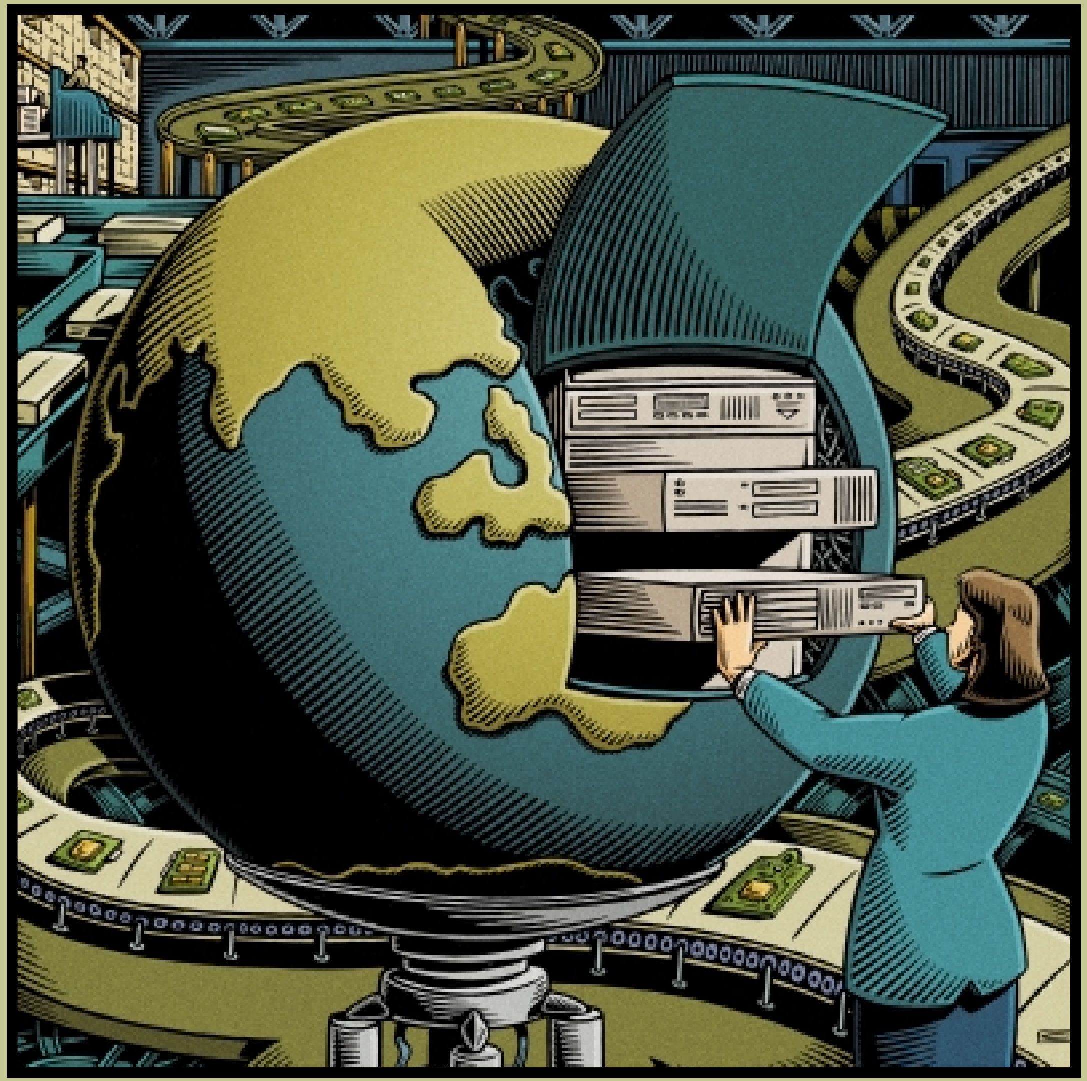
By creating an IT infrastructure where all Avnet's business applications are integrally linked internally and externally through the interconnected marketplace, Avnet is on the road to establishing the virtual alliances and virtual relationships worldwide that will secure the Company's place in the value web, and create shareholder value over the long term.

China ECNet
(Equity investment)

Chinese government-sponsored venture that selected Avnet as its exclusive provider of products, logistics and technical services to indigenous Chinese original equipment manufacturers. China ECNet is the country's first Internet venture dedicated to its exploding electronics industry, which boasts a 34 percent compound annual growth rate.

Brian Hilton, co-President of Avnet Electronics Marketing (fifth from left) participates in a ceremony at the Great Hall of the People, Beijing, China, celebrating the announcement between the Chinese government and Avnet to start China ECNet, an e-commerce initiative.

Drawing from its deep well of knowledge to capitalize on technological advances, Avnet strives to be its customers' and suppliers' first choice.



INNOVATION

NEW VALUE PROPOSITIONS

The electronics market landscape has changed dramatically in the years since Avnet incorporated in 1955. But change has never been so profound or more evident than in the last few years, especially the metamorphosis of the electronics supply chain. The amount of space Avnet occupies in the conventional supply chain has grown. However, with the changing times and Avnet's desire to create and sustain shareholder value, the Company must evolve beyond its traditional roots in distribution.

Avnet is differentiating itself from its competitors by creating service-based value propositions that increase the economic value of Avnet's physical, financial and knowledge resources. Consider the untapped white spaces – opportunities – that exist within the value web in the global technology marketspace, then imagine Avnet filling those spaces by creating services that add even more value for the Company's customers and suppliers.

A perfect example of this vision is this year's formation of Avnet Applied Computing (AAC), the Company's newest operating group. AAC is the first distributor dedicated to system- and subsystem-level products for the OEM market.

Avnet has not only differentiated itself at the operating group level, but within those operating groups as well. Refocusing Computer Marketing's divisions by product segment is another example of the differentiation that sets Avnet apart. Within Electronics Marketing, the HEAT (High Growth Emerging Account Team) program launched Avnet's customer-focused suite of services in North America. The program provides innovative services and targeted resources like consulting and marketing to small start-up companies with high potential.

New value propositions like HEAT represent the disaggregation – or unbundling – of the services Avnet provides. By creating targeted, service-oriented offerings, Avnet is working toward mitigating the cyclicality inherent in the traditional electronic components distribution industry, and in the process is focusing on increasing return on capital employed. Avnet will continue disaggregating the traditional distribution model by offering more of the Company's core value-added services in an á là carte, or fee-for-service, manner. Customers and suppliers will be able to tailor their needs to the moment, shift services to capitalize on global manufacturing opportunities, stay abreast of evolving technology and manage time-to-market pressures.

IBM disc drives are pre-loaded with the end customer's specific software by technicians in Avnet Computer Marketing's Production Integration Center, Chandler, Arizona.

Differentiation – Creating service-based value propositions that increase the economic value of Avnet's physical, financial and knowledge resources.

Engineer at Avnet BFI OPTILAS in Evry, France, performs value-added calibration service on an optical system.

Avnet's strategic focus has shifted toward creating a company capable of generating and sustaining shareholder value throughout the economic cycle.

The economics of the semiconductor revenue growth cycle, the migration to supply-chain management and conventional go-to-market approaches have had a substantive impact on Avnet's and the electronics distribution industry's ability to improve financial returns.

The previous semiconductor revenue cycle lasted eight years – five years up and three years down – with the longest up cycle in recent history. These cycles are driven principally by supply imbalances. To meet growing demand, component manufacturers, in an intensely hot rivalry for market share, bring online not only any existing manufacturing capacity, but start building new fabrication plants and equipment. This eventually results in excess capacity – the manufacture and delivery of an over-supply of components to the market – causing erosion in average selling prices, gross profit margins, operating margins and potentially, earnings per share.

Industry cycles are driving Avnet's strategic planning. The conception and implementation of new business models will further help insulate revenue growth from cyclical effects. In addition to the Computer Marketing and Applied Computing businesses, which are largely acyclical revenue streams, new fee-for-service models and other value propositions will assist with this goal over time. The Company will fund value propositions that achieve its financial targets, and will divest those that do not.

As its role as a supply-chain integrator melds with the trends of outsourcing procurement and materials management, the Company possesses a key competitive weapon – inventory. This important physical asset combined with authorized status with the world's leading component suppliers are not only effective barriers to entry, but they position Avnet as a central point of strategic flexibility in the supply chain.

The Company also has more than $1.7 billion in receivables that, along with inventory, constitute the two principal sources of working capital within Avnet. Moreover, the balance sheet risk on these assets is low, given the generally solid financial base of most of Avnet's customers and inventory return and stock rotation privileges that apply to much of the Company's inventory .

To keep pace in the wired world, Avnet is leveraging the Internet to effect a dramatic reduction in operational expense and create a more streamlined organization — one with the ability to reduce expenses quickly to mitigate market price fluctuations.

PEOPLE

Avnet's employees are the Company. Striving to attract, retain and continuously develop highly skilled people, Avnet has developed a number of strategies from effective recruiting to training programs and alliances with major universities. To create total compensation programs, the Company proactively seeks innovative ways to find and keep the best and brightest people.

COLLEGE RELATIONS PROGRAM

Long-term engagements with several colleges and universities have forged strong ties with promising students and academics. Avnet sponsors a summer internship program, attracting students majoring in Industrial Distribution, Business, Computer Science and Electrical Engineering. The program exposes students to day-to-day job responsibilities and at the same time, exposes Avnet to new and fresh perspectives and ideas from the students. Avnet places a high value on a diverse workplace, and one of its recruitment objectives is to target minority colleges and minority students.

STRATEGIC ALLIANCE WITH ARIZONA STATE UNIVERSITY

Early in FY'01, Avnet pledged $1 million to Arizona State University, which will benefit from two endowed professorships in Supply-Chain Management. The interaction between strategically aligned faculty members and an industry leader provides the foundation for a powerful university/industry relationship, distinguished by ongoing collaboration and high-level information exchange. The advantages extend to the faculty-student relationship as well. ASU will provide students with opportunities to interact with Avnet professionals and participate in intern programs, thus generating interest in Avnet's exciting, global business.

LEARNING ORGANIZATION

The Learning Organization enables employees to practice personal mastery. Avnet's Intranet allows employees to view lists of available training classes, identify their own training requirements and options, and register for courses in business and personal skills. Instructor-guided classes and self-guided online training are offered in areas ranging from computer software to leadership development. Computer-based training lets employees learn at their own pace and convenience. With employees all over the world, distance learning is a very important initiative for the Company. Avnet training is also tied to new technology roll-outs and is designed to support process changes and technology.

Through focused innovation, Avnet will continue to differentiate itself from its peers, especially in information technology and processes, and will continue to create opportunities for its employees and provide the tools for their support.

To differentiate Avnet from its competitors in the area of training and employee development, Avnet Electronics Marketing has launched Learning Organization practices.

AVNET APPLIED COMPUTING

In October 1999, with segments of Avnet Electronics Marketing (OEM Systems Product Business Group and Personal Computer Components) and Avnet Computer Marketing (Hall-Mark Computer Components), Avnet Applied Computing (AAC) started up as a North American business. Under the leadership of president Ed Kamins, Avnet's third and newest operating group has completed its first nine months in existence with sales of $670.5 million – or currently an annualized run rate in excess of $1 billion in FY'01. Most importantly, AAC has been profitable from the outset, with operating profits increasing sequentially each quarter.

Just as Avnet was first to market with a dedicated operating group strategy to target the embedded computing market, so too do customers and suppliers want to be first to market with their products and services. In fact, time to market has become the overriding theme of AAC. With technologies rapidly changing, the need to develop and produce products more quickly is leading to more customers using commercially available computing technologies as the building blocks of their products. More and more, their intellectual property is tied up in their unique product interfaces and their software. AAC distributes off-the-shelf products such as microprocessors at the chip, board and box level, mass storage, flat panel displays and embedded software operating systems from premier suppliers. Applications for these products include equipment such as blood analyzers, telecommunication systems and film editing equipment.

AAC has also merged segments of the Marshall acquisition in North America and part of the Eurotronics B.V. (SEI) and SEI Macro Group acquisitions in Europe. In January, the Personal Computer Components Division/Europe joined AAC from Avnet Electronics Marketing /EMEA. These additions, coupled with organic growth, helped AAC finish the year having doubled its start-up revenue. As FY'01 begins, AAC is adding the storage and original equipment manufacturer (OEM) segments of the recent Savoir acquisition to its growth plan.

AAC was recognized by the Motorola Computer Group as its Distributor of the Year, and was selected by Microsoft as the first industrial distributor to carry its embedded operating system family of products. AAC also enjoys leading positions with Intel, IBM Technology Group and AMD. In addition, it garnered the number one position in the North American distribution of the flat panel display products of Sharp and NEC, the industry leaders. AAC boasts an all-star lineup of suppliers and a focused strategy that attracts significant new customers, validating Avnet's strategy to be the first to dedicate an entire operating group to the subsystem- and system-level needs of OEMs.

Starting out with two business units, AAC now has five: Applied Computing Solutions (ACS)/ North America, which is focused on computing technology, sub-system and system-level products and related services; Applied Computing Components (ACC)/ North America and ACC/Europe, which serve manufacturers of personal computers and systems integrators with microprocessors, dynamic technologies for data storage products, networking products and system building blocks; AAC Asia; and the newest division, Applied Computing Enabling Technologies (ACET), which serves systems integrators.

BRICKS AND CLICKS

The new Applied Computing Labs represent a significant value proposition for AAC customers. To be the best technical sales and engineering force in the industry, and first to market, AAC needs two things: the bricks and the clicks.

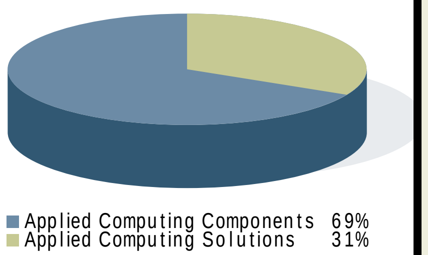
The first lab, recently built in Tempe, Arizona, offers a product showcase of the latest technology from premier suppliers. It is the place – the bricks – where customer engineers can meet with the AAC engineering team to design their product specifications and build their prototypes. This lab will be the feeder source for the Product Integration Center, which will build these products for customers to the specifications designed in the lab.

Also launched, early in FY'01, was the Avnet FasTrac Web portal – the clicks – which will quickly become the primary information source for customers who need engineering information from AAC or its suppliers.

GOING FORWARD

The primary thrust for AAC is to establish a fully integrated solutions business globally. Having established a strong North American business, AAC is now focusing on Asia and Europe, with plans to grow organically and through acquisitions. AAC serves an exciting growth industry where OEM customers are achieving higher levels of integration and creating systems with standard, off-the-shelf products – decreasing the time engineers spend designing products and therefore increasing speed to market. Because AAC is currently the only distributor dedicated to embedded systems, the distributor total available market (DTAM) share is expected to increase. The applied computing market is expected to continue to accelerate in its growth.

AAC SALES
BY PRODUCT



A prototype board interfacing to a flat-panel display undergoes final testing at the new Avnet Applied Computing Lab, Tempe, Arizona.

Installing memory modules into a motherboard on a build-to-order personal computer.

Avnet Applied Computing's mission is to help its customers be first to market by creating systems with standard, off-the-shelf products.

AVNET COMPUTER MARKETING

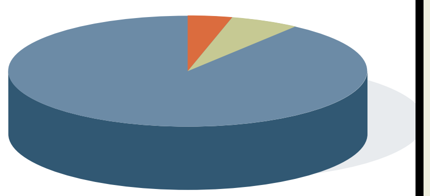
In his first full year as president, Andy Bryant has driven further expansion and record growth for Avnet Computer Marketing (CM). FY'00 did, however, begin in a continued downturn due to Y2K-related compliance issues and slowdowns. By the end of the second quarter, however, CM began to experience significant recovery in its overall business. CM markets enterprise servers, software and storage to value-added resellers (two-tier distribution model) and predominantly large end users (single-tier model).

Despite the lingering effects of Y2K, as Avnet CM entered the second half of the fiscal year, sales of storage products, enterprise database software from Oracle and multi-processor Intel Architecture servers from major OEM suppliers boomed as the e-business revolution accelerated.

From recovery, CM posted solid results. Achieving a 19.8 percent increase over FY'99, CM's sales reached $1.86 billion. Throughout the year, as changes occurred in the distribution landscape, CM took an offensive position, expanding its physical presence on three continents. In Asia/Pacific, Avnet completed the acquisition of Integrand Solutions, Compaq's largest single-tier distributor in Australia, which was integrated into Avnet Computer. On the European front, Avnet acquired PCD Italia S.r.L. and Matica S.p.A., two of Italy's leading value-added technical distributors of IBM AS/400 and RS/6000 computers, IBM printing, storage and software, SUN workstations and Hewlett-Packard servers, with combined revenues of $120 million in 1999. IBM appointed Avnet CM as its distributor in France, a country which boasts high usage of information technology. In July of FY'01, Avnet also acquired Savoir Technology Group, Inc., the leading North American two-tier distributor of IBM midrange server products, with calendar 1999 revenues of $767 million. Savior is the largest acquisition ever for Avnet Computer Marketing.

The addition of Savoir positions Avnet CM as the number one global value-added distributor of IBM midrange computing products and establishes Avnet's first $1 billion worldwide supplier relationship.

AVNET CM
SALES BY PRODUCT



Avnet Computer Marketing's new global headquarters, a 132,000 sq. ft. facility at Arizona State University's Research Park, Tempe, Arizona.

REBRANDING

At the close of FY'00, Avnet Computer Marketing and its operating divisions committed to a worldwide rebranding effort that consistently emphasizes the Avnet name and Avnet Computer Marketing's core competencies, which are customer-focused, solutions-based offerings around enterprise servers, software and storage products. CM's mission is to be the global value-added leader in the information technology distribution marketplace, by building channels to market for its suppliers and providing the highest level of satisfaction to its customers.

Moving forward, all divisions will be referenced under the parent brand of Avnet Computer Marketing. Hall-Mark Global Solutions has become Avnet Computer Marketing, Hall-Mark Division (Avnet Hall-Mark). Avnet Computer has been rebranded Avnet Computer Marketing, Enterprise Solutions Division (Avnet Enterprise Solutions). Avnet Convergent Technologies (formerly Penstock Point of Sale) is now known as Avnet Computer Marketing, Convergent Technologies Division (Avnet Convergent Technologies).

The rebranding is expected to result in a more consistent marketing presence, while leveraging the most valued brand in distribution – Avnet.

AVNET HALL-MARK (NORTH AMERICA)

The Avnet Hall-Mark team faced one of their most challenging years ever in FY'00. As FY'99 ended, supplier partners were building very different strategic channel models. Dedication of resources from their distributors became a requirement. These changes in the marketplace were turned into opportunities. The business was reorganized in June 1999 to accelerate focus and sales growth for suppliers. Specifically, dedicated Product Business Units (PBUs) were organized to support Compaq, Hewlett-Packard, IBM, Software, Storage and Services. The most dramatic area of growth was in the software business unit where revenues exceeded $160 million — or 450 percent year to year growth. Hall-Mark's overall North American business posted top-line annual revenues of over $950 million.

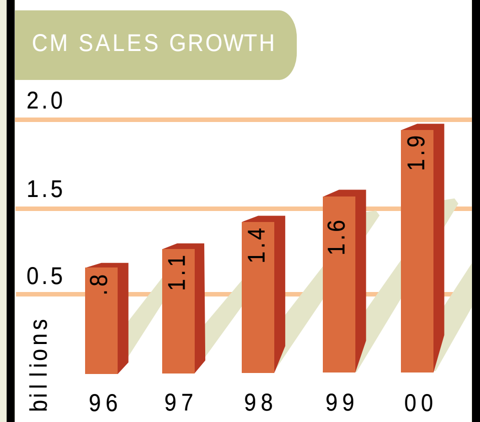
Hall-Mark also successfully responded to Hewlett-Packard (HP) and its Channel 2000 (C2K) challenge – a program designed to audit the supply-chain efficiencies of its distribution channel strategy – the most significant test of Avnet Hall-Mark's value to date. Avnet Hall-Mark was ultimately selected as one of only two midrange channel partners.

Avnet Hall-Mark, North America, takes a commanding lead into FY'01 as the benchmark performer for solutions distribution.

AVNET HALL-MARK, INTEL ARCHITECTURE SERVER BUSINESS UNIT (FORMERLY HALL-MARK INTEGRATED SOLUTIONS)

In its first complete year, Avnet Hall-Mark's two-tier Intel Architecture (IA)-focused business unit enjoyed tremendous growth. Sales more than doubled year to year, from

In the Avnet Integration Center, complex IBM RS6000 configurations are built and customized every day to customer specifications.



Avnet Computer Marketing technicians assembling build-to-order enterprise computer workstations.

$30 million to $65 million, and it successfully differentiated itself in the market. A major point of differentiation, and the most identifiable core competency of the business unit, is its ability to perform complex integration of high-end IA server solutions – IBM Netfinity, HP Netserver and Compaq Proliant products – which translates into a tremendous growth opportunity for Avnet CM in FY'01.

AVNET ENTERPRISE SOLUTIONS (FORMERLY AVNET COMPUTER)

Server consolidation, storage-area networking and business-to-business infrastructure solutions continue to be an explosive growth market for Avnet Computer's single tier business model. This division is one of the few North American solutions integrators of its size. With record sales performance of more than $400 million, representing 25 percent growth year to year, this business has become a major go-to player for key vendors such as Compaq and IBM — suppliers actively seeking the e-infrastructure capabilities it offers on a national level.

Affirming the Avnet Enterprise Solutions success, and validating its business model, *VARBusiness* magazine (September 2000) ranked Avnet Computer No. 89 in its annual VARBusiness 500 listing of the top 500 value-added resellers, integrators and information technology consultants in North America. Avnet Computer was also named Partner of the Year by Computer Associates International Inc. (CA), based on its significant strides in support of Unicenter TNG, CA's flagship e-business enterprise management solution.

AVNET CONVERGENT TECHNOLOGIES

A leading distributor of integrated point-of-sale systems, including bar-code scanning, automatic identification systems and wireless computing technologies integrated with local area networks, Avnet Convergent Technologies markets to North American value-added resellers. Fueled by explosive demand for these solutions, Avnet Convergent Technologies projects continued strong growth.

EUROPE

Avnet Hall-Mark, Europe, continued rapid growth throughout FY'00, with $280 million in top-line revenues. All warehouse and purchasing operations in the United Kingdom, Germany, Austria and Switzerland were successfully consolidated into a new facility near Waterloo, Belgium, and a pan-European enterprise resource planning (ERP) system was implemented as well. The system provides the foundation for seamless financial and operational support across all European operations. During FY'00, Avnet Hall-Mark became IBM's largest pan-European value-based distributor and was named IBM's Distributor of the Year in the United Kingdom. It was also named IBM's Top Revenue Performer in AS/400 and Best Performance Target Achiever in RS/6000 in Poland.

ASIA PACIFIC

Avnet Enterprise Solutions/Australia (formerly Avnet Integrand) is Compaq's No. 1 single-tier distributor in Australia with year over year revenue growth of 55 percent. Meanwhile, Avnet Hall-Mark/Australia's, sales increased 25 percent over FY'99.

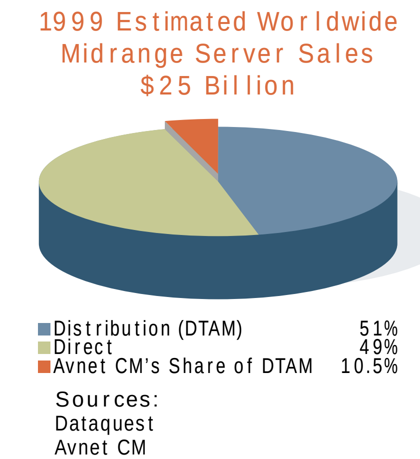
OPPORTUNITIES FOR RECORD GROWTH

As evidenced by C2K, the HP channel strategy for the future, the supplier and customer base are requiring unprecedented levels of accountability among all participants in the supply chain. This has led to the unbundling, or disaggregation, of value propositions, which means that logistics, sales, marketing, finance and technical support may be priced and sold á là carte. Avnet CM is embracing this evolution in the role of service provider by charging for the value provided, not simply the product sold. And, although much of its existing services will successfully mesh into the new model, it must – and will – accelerate its offering of total solutions to suppliers and customers.

Avnet CM views the Internet as a tool that will contribute to reduced expenses and increased efficiencies. For example, all customer-critical information about products and solutions is being made available through customized Web portals. All purchasing and related activities must be available online, to free the sales force to focus on value-added activities.

LOOKING FORWARD

Avnet CM will continue to develop its existing channels to market, focusing on selling specific products and services to specific customers. It will also generate incremental sales with those customers while expanding beyond its existing base, delivering revenue to suppliers from new accounts. Avnet Hall-Mark and Avnet Enterprise Solutions are viewed as leaders in their respective markets, with the ability to adapt to and capitalize on the opportunities the information technology industry presents. In FY'01, look for more innovation at Avnet CM than ever before.



Avnet Computer Marketing's core competencies are providing customer-focused, solutions-based offerings around enterprise servers, software and storage products.

AVNET ELECTRONICS MARKETING

The largest of Avnet's three operating groups, Avnet Electronics Marketing (EM), with sales exceeding $6.6 billion – an increase of 38 percent over FY'99 – is one of world's leading distributors of semiconductors, interconnect, passive and electromechanical components, and radio frequency and microwave products. Customers include original equipment manufacturers (OEMs) and contract manufacturers.

EM is led by co-presidents Steve Church and Brian Hilton, who share operational responsibilities. Mr. Church leads efforts in the Americas and Mr. Hilton focuses on Europe, the Middle East, Africa and Asia/Pacific. They share the global functions of customer management, supplier management, e-business, materials management, finance and operations.

In two years, EM – now the No. 1 electronic components distributor in North America and a leader in electronics industry supply-chain integration – has successfully reorganized, rebranded, integrated newly acquired companies, globalized and technically enabled its organization to retain and enhance its strong market position.

Customer needs are fulfilled via three primary services: Core Value Services, Integrated Material Services and Avnet Design Services.

CORE VALUE SERVICES

The legacy business of Avnet, Core Value Services is focused on the transactional needs of the traditional buyer, who may choose to do business by telephone, online or both. Staffed with inside sales teams of skilled, well-trained commodity specialists, and also providing complete ordering and order tracking via its comprehensive Web site, EM simplifies and adds flexibility to customer transactions. Stocked with hundreds of thousands of components from the world's premier suppliers, and offering a suite of value-added services including chip programming and testing, cable assembly, kitting and materials management, EM takes pride in its exceptional one-stop service.

INTEGRATED MATERIAL SERVICES (IMS)

EM's strategies continue to strengthen Avnet's position as a premier material manager within the supply chain for the electronic components industry. Avnet IMS, the supply-chain management services business, is growing substantially faster than the industry average. Its success is a strong indicator of the direction Avnet EM will move in the future. IMS' growth is more than 40 percent compounded annually, with $2.6 billion in sales in FY'00.

Serving major customers and suppliers, IMS employs leading-edge information technology to manage the customer's entire bill of materials while reducing cycle time from design through production. Its charter is to pull components through the manufacturing process efficiently, reduce inventory, lower costs and improve responsiveness. All are aimed toward getting customers' end products to market faster and more cost effectively.

AVNET DESIGN SERVICES (ADS)

Backed by Avnet EM's technology suppliers, ADS offers complete product solutions to engineers. With an average of more than 10 years of design experience each, Avnet engineers, located around the world, can assist with a variety of design-related and time-to-market issues. It remains ADS' goal to support customers with the best technology line card in the electronics industry, help them develop leading-edge products and, most importantly, get them to market faster. ADS wins new designs for suppliers' products and influences the bill of materials early in the design process by focusing on three strategic initiatives: design-win sales; custom integrated circuit designs; and systems-level design services. The high technology products ADS helps design and develop are delivered more quickly to market through the supply-chain management services of Avnet IMS than through the traditional core value services model.

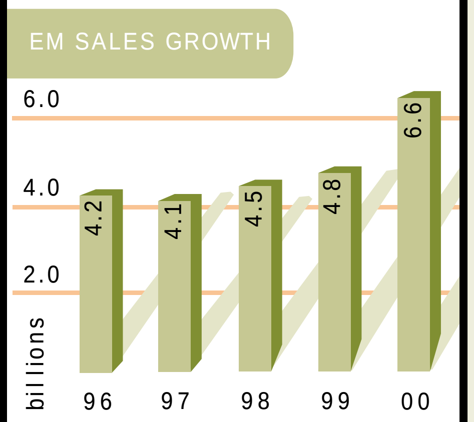
GLOBAL PLANNING

Another highlight of note: In January 2000, Avnet EM organized its first Global Customer Management Strategic Planning Summit where EM shared its strategic planning process used to establish its goals and strategies. Global customers were encouraged to voice their expectations of Avnet and together, the group developed key strategies and action plans. The Summit proved to be a valuable exercise in cooperative strategic planning and will become an annual event.

AVNET ELECTRONICS MARKETING/AMERICAS

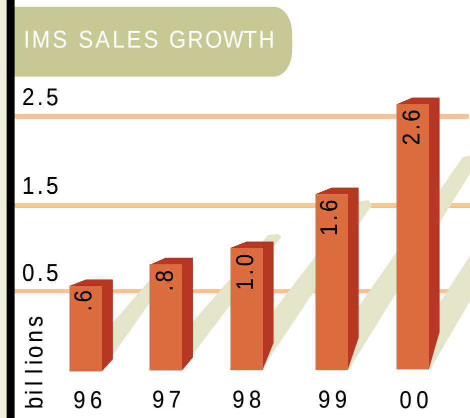
Avnet EM Americas (EMA) has had the most successful fiscal year in its history, with record sales of $4.7 billion, up 36 percent over FY'99, and an increase in net operating profit after tax return on working capital of 2.48 percent.

The year's most significant accomplishments were achieved in conjunction with the acquisition of Marshall Industries and its Sterling Electronics subsidiary. This, the largest



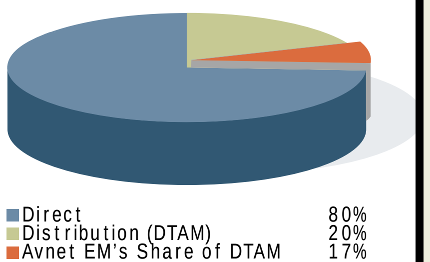
At Avnet Electronics Marketing's Chandler, Arizona, megawarehouse (expanded 202,000 sq. ft. in 2000), 'Special Handling' instructions divert orders to stations where material handlers ensure that customers' unique requirements are met.

Avnet engineer works on a customer's design in the new Avnet Design Services facility in Munich, Germany.



Avnet Electronics Marketing's goal is to be the supply-chain integrator for the electronic components industry.

1999 Estimated Worldwide Electronic Component Sales $200 Billion



Sources:
Bear Sterns
Europartners
Merrill Lynch
NEDA
US Bancorp Piper Jaffray
Technology Forecasters
Avnet Business Information Office

Machine operator inserts insulators into connectors, another of Avnet's value-added services.

acquisition in the industry's history – Marshall/Sterling reported sales of $1.7 billion in its fiscal year ending May 31, 1999 – created the largest electronic components distribution enterprise in the Americas.

Immediately upon the close of the transaction in October 1999, the integration teams began to merge the companies' back-office systems – a mammoth undertaking. Impressively, Marshall/Sterling was integrated into Avnet's global information technology environment in fewer than 60 days, a testament to the abilities, experience and can-do attitude of Avnet employees. Synergies gained from the integration helped Avnet realize more than $85 million in annualized cost savings by the close of FY'00.

The integration exceeded internal expectations, as did sales performance. Bolstered by the expanded supplier lines and new customers brought by Marshall/Sterling, the newly expanded Avnet EMA officially launched in January. During the last two quarters of FY'00, EMA's sales grew 44 percent over the first six months of the fiscal year. The market continues to look healthy as FY'01 begins, with industry growth estimates exceeding 20 percent.

FY'00 was an outstanding year for Canada, South America and Central America. Canada's revenues increased by 33 percent; Mexico's sales run rate increased by 191 percent and Brazil's by 60 percent. Across Latin America, sales were up 168 percent.

EUROPE, MIDDLE EAST AND AFRICA (EMEA)

Avnet EM/EMEA has a new presence in Eastern Europe, Russia, the Baltic States, Spain, Portugal and the Benelux countries with Avnet's acquisitions of Eurotronics B.V. (which did business as SEI), the SEI Macro Group and SEI Nordstar. Its presence increased in 21 Western European countries, including Switzerland and Austria, where EM was seeking to expand. This expansion affords near-total coverage of the European distributor total available market (DTAM). EM/EMEA achieved sales of $1.5 billion, a 37 percent increase over FY'99.

EM/EMEA highlights include the honor of being named UK Distributor of the Year for 1999 by Tyco Electronics AMP and the establishment of an ASIC design center for LSI Logic in Munich. In addition, Avnet BFI OPTILAS, with locations across Europe, and Avnet Gallium, Israel, had record years in sales and profits. Each significantly outgrew the market. Avnet Kopp, South Africa, implemented two Avnet IMS POURS® (Point of Use Replenishment System) sites, which are growing in excess of 40 percent. Further, South Africa reports a vibrant economy and a growing electronics industry.

The EMEA organization has made tremendous progress in its re-engineering of the SAP client/server platform from version 2.2 to 4.0. Avnet's pan-European network was up on SAP 4.0 by November 1999. The benefits of a single, world-class IT system, which performs in multiple languages and currencies and recognizes the various business practices across Europe, are significant. Avnet, as a result of its investments, has been recognized by several industry publications for its IT innovations. SAP is beginning to increase productivity through automation and generate significant quality improvements. It will improve customer service considerably as automation of the European Distribution Center (EDC) in Tongeren, Belgium, is completed.

ASIA/PACIFIC

The fastest growing region in sales and profits, Asia increased sales by 82 percent year over year, and posted over 500 percent growth in profits. At the same time 13 countries rolled out on SAP 4.0, the Company expanded into Korea with the acquisition of Cosco/Jung Kwang, and Avnet forged its unprecedented business alliance with China ECNet.

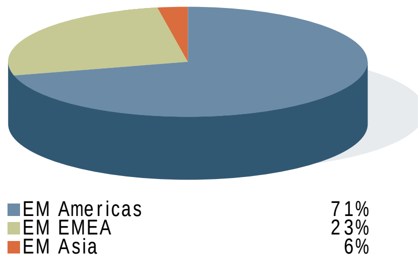
Avnet Asia's infrastructure is well established and poised for continued growth in this dynamic region. The Asia management organization is now operating with 27 offices across Asia/Pacific, a 40,000 sq. ft. China Gateway Distribution Center in Hong Kong, a new proximity warehouse in Shanghai, a 45,000 sq. ft. Asia Regional Distribution Center in Singapore and seven other proximity warehouses in key markets.

One of the most memorable highlights of FY'00 was the ceremony at Beijing's Great Hall of the People, where Avnet and ChinaEcom (now China ECNet) announced an e-commerce initiative in China. Avnet EM's mission is to supply electronic components, logistics and technical services throughout China to indigenous OEMs and engineers via an Internet portal. Avnet was chosen for this Internet venture because of its relationship with global suppliers and its leadership in strategic supply-chain management, global logistics and transportation. China's electronics market has been estimated at $71 billion and is the country's fastest-growing industry.

Since the announcement of China ECNet, Avnet EM has worked with the Chinese government to obtain local distributor status – another first for an American-based

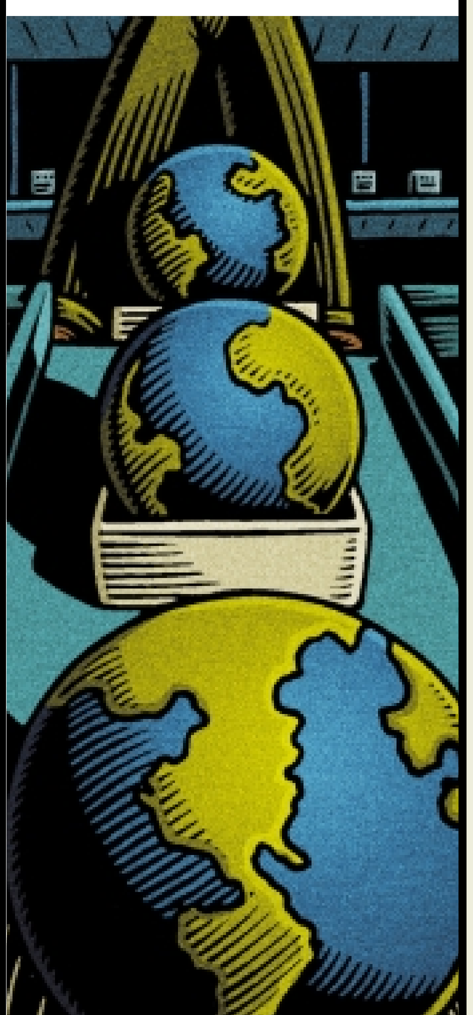
Technicians programed nearly 100 million programmable logic devices in FY'00, one of Avnet's many value-added services.

AVNET EM SALES BY REGION



To increase efficiencies in customer service, Avnet EM consolidated its major European warehouses into the new, 250,000 sq. ft. facility in Tongeren, Belgium.

Avnet executives traveled to Seoul, South Korea, to welcome the Company's newest acquisition there, the highly successful Cosco/Jung Kwang group, which is now Avnet Korea.



company. EM is now operating a warehouse in Shanghai's Free Trade Zone, and is one of only eight non-Chinese companies to achieve this advantage. EM can import and sell directly to customers throughout China. EM's Greater China Strategy and complementary organizational structure are designed to achieve a leadership position in the China market. Toward this end, strategic IMS engagements with customers have been initiated inside the country.

EM is in the process of rolling out Avnet Design Centers throughout Asia. It is opening an RF/Wireless Design Center in Singapore to complement existing Design Centers in Bangalore, India; Auckland, New Zealand and Hong Kong.

Avnet Asia aims to be the preferred provider of global supply-chain management and turnkey design services to customers and suppliers. The Asian electronics market is experiencing explosive growth and is offering tremendous opportunities for Avnet – especially in China.

LOOKING AHEAD AT EM GLOBAL

Sales growth and continued improvements in profitability are anticipated, based on strong market conditions, strategic acquisitions made in FY'00, new acquisitions planned for FY'01 and increased market share for Avnet. The acquisitions bring synergies, economies of scale and additional talented people to the Avnet team. The semiconductor components industry is currently in the midst of an exciting upturn, yielding a very positive market environment for Avnet. The upturn is causing average selling prices and gross profit to rise, contributing greatly to the strong results articulated in this Report. The EM global management team anticipates this positive environment will continue, and expects further industry consolidation in FY'01.

BOARD OF DIRECTORS

(Pictured left to right)

Name/Year Elected to Board

RAY M. ROBINSON - 2000
President, AT&T Southern Region
Consumer Long Distance Division

EHUD HOUMINER - 1993
Professor and Executive-in-Residence,
Columbia University Business School

FREDERICK S. WOOD - 1992
Consultant, General Dynamics Corp.,
Formerly Executive Vice President (Ret.)

JOSEPH F. CALIGIURI - 1992
Executive Vice President,
Litton Industries, Inc. (Ret.)

J. VERONICA BIGGINS - 1997
Senior Partner, Heidrick & Struggles, International,
Formerly Assistant to President Clinton
and Director of Presidential Personnel

FREDERIC SALERNO - 1993
Vice Chairman and Chief Financial Officer,
Verizon Communications (formerly Bell Atlantic)

ROY VALLEE - 1991
Chairman and Chief Executive Officer, Avnet, Inc.

SALVATORE J. NUZZO - 1982
Chairman and Chief Executive Officer, Datron, Inc.
Chairman, Marine Mechanical Corp.

JAMES A. LAWRENCE - 1999
Executive Vice President and Chief Financial Officer,
General Mills, Inc.

ELEANOR BAUM - 1994
Dean, School of Engineering,
The Cooper Union, New York

LAWRENCE W. CLARKSON - 1998
Senior Vice President,
The Boeing Company (Ret.)

GARY L. TOOKER - 2000
Senior Advisor, Morgan Stanley Dean Witter Private Equity,
Former Chairman and CEO, Motorola, Inc. (Ret.)

OFFICERS

Name/Years of service at Avnet

ROY VALLEE - 23 years
Chairman and CEO

DAVID BIRK - 19 years
Sr. Vice President, Secretary and General Counsel

ANDREW S. BRYANT - 18 years
Sr. Vice President

STEVEN C. CHURCH - 9 years
Sr. Vice President

ANTHONY T. DELUCA - 20 years
Sr. Vice President

BRIAN HILTON - 3 years
Sr. Vice President

PATRICK JEWETT - 18 years
Sr. Vice President

RAYMOND SADOWSKI - 22 years
Sr. Vice President, Chief Financial Officer and Asst. Secretary

BRIAN ARMSTRONG - 17 years
Vice President

STEVEN J. BANDROWCZAK - 11 years, Vice President

JOHN A. CARFORA - 14 years
Vice President

JOHN T. CLARK - 17 years
Vice President

HARLEY M. FELDBERG - 18 years
Vice President

GREGORY A. FRAZIER - 23 years
Vice President

PHILIP GALLAGHER - 17 years
Vice President

RICHARD HAMADA - 16 years
Vice President

LORI HARTMAN - 16 years
Vice President

JOHN HOVIS - 8 years
Vice President

STEVEN M. JOHN - 10 years
Vice President

EDWARD KAMINS - 3 years
Vice President

ARTHUR J. LEVY - 10 years
Vice President, Deputy General Counsel and Asst. Secretary

ALLEN MAAG - 2 years
Vice President

JOSIAH NAPUA - 1 year
Vice President

JAMES D. SHORT - 26 years
Vice President

CHARLES SMITH - 28 years
Vice President

GEORGE SMITH - 22 years
Vice President

DONALD E. SWEET - 34 years
Vice President

ROBERT ZIERK - 16 years
Vice President

JOHN COLE - 23 years
Controller

MANAGEMENT BOARD

(Pictured left to right)

DAVID BIRK
ANDREW BRYANT
RAYMOND SADOWSKI
BRIAN HILTON
ED KAMINS
ANTHONY DELUCA
JOHN HOVIS
ROY VALLEE
JEAN FRIBOURG
STEVE CHURCH
GREG MONTE
KEVIN McGARITY†
ANDREW McFARLANE†
ALLEN MAAG
PHILIPPE SALA†
RICHARD WARD†

†Outside Management Board members

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For an understanding of the significant factors that influenced the Company's performance during the past three fiscal years, the following discussion should be read in conjunction with the consolidated financial statements, including the related notes, and other information appearing elsewhere in this Report. Reference herein to any particular year or quarter generally refers to the Company's fiscal year periods.

Effective as of the beginning of 1999, Avnet changed its organizational structure to strengthen its focus on its core businesses and thereby better meet the needs of both its customers and its suppliers. This change involved dividing the former Electronics Marketing Group into its two major lines of business: the distribution of electronic components and the distribution of computer products. This change resulted in the creation of two operating groups, Electronics Marketing ("EM") and Computer Marketing ("CM"). EM focuses on the global distribution of and value-added services associated with electronic components. CM focuses on middle- to high-end value-added computer products distribution and related services. In addition, the Company has a third operating group — Avnet Applied Computing ("AAC") — which began operating in the Americas effective as of the beginning of the second quarter of 2000 and in Europe effective as of the beginning of the third quarter of 2000. AAC, which was created by combining certain segments from EM's and CM's operations, provides leading-edge technologies such as microprocessors to system integrators and manufacturers of general purpose computers, and provides design, integration, marketing and financial services to developers of application-specific computer solutions. AAC-type activities in Asia are still included as part of EM. It is expected that these operations will be included as part of AAC as of the beginning of 2001. References below under "Results of Operations" to "EM", "CM" and "AAC" are to the new group structure. The results for AAC in the Americas and Europe prior to the beginning of the second and third quarters of 2000, respectively, are included in EM and CM as the results of the operating groups have not been restated. Therefore, the group information supplied below for 2000 is not comparable to the information for prior periods.

The results for 2000 included the impact of the Company's October 20, 1999 acquisition of Marshall Industries, the largest acquisition in the history of the electronics components distribution industry, which is more fully described in the "Acquisitions" section to follow in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"). Marshall Industries has been merged primarily into EM with a relatively small portion having been merged into AAC.

On August 31, 2000, the Company's Board of Directors declared a two-for-one stock split to be effected in the form of a stock dividend (the "Stock Split"). The additional common stock will be distributed on September 28, 2000 to shareholders of record on September 18, 2000. All references in this MD&A, and elsewhere in this Report, to the number of shares, per share amounts and market prices of the Company's common stock have been restated to reflect the stock split and the resulting increased number of shares outstanding.

RESULTS OF OPERATIONS

Sales

Consolidated sales were a record $9.172 billion in 2000, up 44% as compared with sales of $6.350 billion in 1999. A significant portion of the increase in sales was due to the acquisitions in 2000 of Marshall Industries, Eurotronics B.V. (SEI) and the SEI Macro Group. EM's sales, which represent 72.4% of consolidated sales, were a record $6.638 billion in 2000, up 38% as compared with sales of $4.795 billion in 1999. This increase in sales was due primarily to the impact of acquisitions and the strengthening of business conditions in the electronics component distribution market. As far as EM's sales by region are concerned, EM Americas' sales in 2000 of $4.694 billion were up 36% as compared with the prior year, while EM EMEA's 2000 sales were up over 37% and EM Asia's sales were up approximately 82% as compared with 1999. CM's sales, which represented 20.3% of consolidated sales, were $1.864 billion in 2000, up almost 20% as compared with 1999 sales of $1.555 billion. Avnet's newly formed group, AAC, recorded sales of $670 million in 2000, or 7.3% of consolidated sales. In addition, EM's and CM's sales for 2000 as indicated above include $368 million of AAC sales recorded prior to the period when AAC was separated into a separate group, making AAC's global sales approximately $1.038 billion on a pro forma basis for 2000.

Consolidated sales were $6.350 billion in 1999, up 7% as compared with sales of $5.916 billion in 1998. EM's sales of $4.795 billion in 1999 were up over 7% as compared with $4.474 billion in 1998, and CM's sales of $1.555 billion in 1999 were up almost 11% as compared with $1.404 billion in 1998. EM Americas' sales in 1999 of $3.451 billion were up over 4% as compared with the prior year, while EM EMEA's 1999 sales were up over 10% and EM Asia's sales were up 49% due in part to sales of newly-acquired businesses. Consolidated sales also benefited from the extra week of operations in 1999 as compared with 1998 due to the Company's "52/53 week" fiscal calendar. (See Note 1 to the Consolidated Financial Statements appearing elsewhere in this Report.)

Unusual Items

As described below, the Company has recorded a number of special charges during the last three fiscal years. These charges relate primarily to the reorganization of EM's operations in each of the three major regions of the world in which it operates and to the integration of newly acquired businesses. Management expects that the Company's future results of operations will benefit from the expected cost savings resulting from these reorganizations and integration of new businesses, and that the impact on liquidity and sources and uses of capital will not be material.

During 2000, the Company recorded $49.0 million pre-tax ($37.2 million included in operating expenses and $11.8 million included in cost of sales), $30.4 million after-tax and $0.37 per share on a diluted basis of incremental special charges associated with (1) the integration of acquired businesses into the Company as described below ($31.7 million), (2) the reorganization of EM's European operations ($9.2 million), consisting primarily of costs related to the centralization of warehousing operations, (3) the reorganization of EM Asian operations ($5.4 million) and (4) costs incurred in the second quarter in connection with its lawsuit against Wyle Laboratories, Inc. and certain individuals ($2.7 million). Of the $49.0 million pre-tax charge, $29.9 million requires the use of cash ($21.6 million of which had been expended at June 30, 2000) and $19.1 million represents a non-cash charge. The balance of cash to be expended is expected to be paid by the end of 2001 except for amounts related to long-term real property lease obligations.

The charges in 2000 associated with the integration of acquired businesses included the integration of Marshall Industries into the Company's North American EM and AAC operations ($18.4 million), the integration of JBA Computer Solutions into CM North America ($3.2 million) and the integration of Eurotronics B.V. (SEI) and the SEI Macro Group into EM EMEA ($10.1 million). The charges related to the integration of acquired businesses and the reorganization of EM Asia are comprised of severance, inventory reserves required related to supplier terminations, real property lease terminations, employee and facility relocation costs, write-downs associated with the disposal of fixed assets, special incentive payments and other items.

The charges related to the reorganization of EM's European operations consisted primarily of costs related to the centralization of warehousing operations into the Company's new facility in Tongeren, Belgium. These charges were for severance, adjustment of the carrying value of fixed assets, real property lease terminations, duplicate employee and property related costs, and other items.

The costs incurred pertaining to the Wyle lawsuit, in which the Company was the plaintiff, related to legal and professional fees associated with the trial of the case, which commenced in September 1999. On February 4, 2000, a jury in Tampa, Florida returned a verdict in the case absolving the defendants of any liability. Subsequently, the parties agreed to settle the case by dismissing all claims and appeals with prejudice and with each side bearing its own costs and expenses.

During 1999, the Company recorded special items which positively impacted income before income taxes, net income and diluted earnings per share by $183.0 million, $64.0 million and $0.89, respectively. These special items consisted of the gain on the sale of the Company's former Allied Electronics subsidiary ($252.3 million) on July 2, 1999, the last day of fiscal 1999, offset somewhat by charges recorded in connection with the disposition of the Avnet Setron catalog operation in Germany ($42.8 million) and the reorganization of EM ($26.5 million). Most of the charges related to the disposition of Avnet Setron involved the non-cash write-off of goodwill and the write-down of inventory on product lines not typically sold by EM's core businesses. The Company sold Avnet Setron in February 2000 for an amount approximately equal to its written down value.

The 1999 charges related to the reorganization of EM are associated principally with EM's European operations and included severance, inventory reserves required related to supplier terminations and other items. The charge related to the reorganization of EM also included some incremental costs associated with the completion of the reorganization of EM Americas, most of the costs for which were recorded in the fourth quarter of 1998. These costs included primarily employee relocation and special incentive payments as well as some additional severance costs.

Of the $183.0 million pre-tax gain related to the special items recorded in 1999, charges of $56.1 million are included in operating expenses ($21.8 million requires the use of cash) and $13.1 million are included in the cost of sales (all of which represented a non-cash charge), and the $252.3 million pre-tax gain on the sale of Allied Electronics is shown separately in the Company's Consolidated Statement of Income. The unusually large impact on taxes was a result of the elimination of goodwill attributable to the Allied and Setron businesses for which no tax benefit is available. At June 30, 2000, the only cash remaining to be expended in connection with the 1999 special charges were amounts associated with long-term real property lease terminations and contractual commitments, the amounts of which are not material.

During 1998, the Company recorded special items which negatively impacted income before income taxes, net income and diluted earnings per share by $14.9 million, $12.5 million and $0.16, respectively. The special items consisted of incremental charges associated with the reorganization of EM Americas ($35.4 million) and the costs related to the divestiture of Avnet Industrial, the closure of the Company's former corporate headquarters in Great Neck, New York and the write-down of Company-owned real estate ($13.3 million). These charges were offset somewhat by the $33.8 million pre-tax gain on the sale of the Company's former Channel Master business. The charges recorded in connection with the reorganization of EM Americas included severance, real property lease termination costs, inventory reserves required related to supplier terminations, the write-down of goodwill and other items. The write-down of goodwill related to a small underperforming operating unit, the ultimate disposition of which will not have a material impact on the Company's future results of operations.

Of the $14.9 million net pre-tax charge related to the special items in 1998, $39.0 million was included in operating expenses ($21.9 million requires the use of cash) and $9.7 million was included in cost of sales (all of which represented a non-cash charge), and the $33.8 million pre-tax gain on the sale of Channel Master is shown separately in the Consolidated Statement of Income. At June 30, 2000, the only cash remaining to be expended in connection with the 1998 special charges were amounts associated with long-term real property lease terminations and contractual commitments, the amounts of which are not material.

Operating Income

Consolidated gross profit margins (before special charges) were 14.2% in 2000 as compared with 15.1% and 16.7% in 1999 and 1998, respectively. This downward trend is due primarily to the competitive environment in the electronic distribution marketplace as a result of the global industry cyclical downtrend as well as the effect of increased sales of computer products (including microprocessors, DRAMS, disk drives, etc.), which have lower gross profit margins than other products in the Company's product lines. After reaching a low point of approximately 13.9% in the first and second quarters of 2000, consolidated gross profit margins began increasing and reached 14.4% in the fourth quarter of 2000 evidencing that the electronics distribution industry has begun to rebound from the longest cyclical downtrend in its history. Although operating expenses (before special charges) in absolute dollars were sequentially higher during the last three years, they fell to a record low of 10.0% as a percentage of sales during 2000 as compared with 11.3% in both 1999 and 1998. Comparative operating expenses in 1999 versus 1998 were negatively impacted by approximately $10.5 million of incremental costs associated with the Company's year 2000 remediation program (see below), the extra week of expenses due to the Company's "52/53 week" fiscal calendar and by normal operating expenses incurred by newly acquired businesses. As noted above, the Company's operating expenses as a percentage of sales for the entire 2000 year reached a record low of 10.0% in 2000 due in part to the Company's highly successful integration of Marshall Industries into its EM Americas' operations. The impact of the synergy benefits was more evident in the fourth quarter of 2000 as operating expenses as a percentage of sales fell to record low of 9.2% in that quarter. The combination of improving industry conditions and the synergy benefits derived from recent acquisitions resulted in a fourth quarter 2000 operating income margin of 5.2%, the first time operating income margins have exceeded 5.0% since the third quarter of 1998. Operating income (before special charges) of $383.0 million in 2000 represented 4.2% of sales, as compared with $242.5 million, or 3.8%, of sales in 1999 and $319.9 million, or 5.4%, of sales in 1998.

Interest Expense and Net Income

Interest expense was $84.3 million in 2000 as compared with $52.1 million and $40.0 million in 1999 and 1998, respectively. The significant increase in interest expense during the last few years was due primarily to increased borrowings to fund the Company's acquisition program, its stock repurchase program and the additional working capital requirements to support the growth in business. Interest expense in 2000 was also impacted by increased interest rates as a result of the Federal Reserve's actions to increase short-term rates and the Company's decision to issue, in February 2000, $360.0 million of 7 7/8% Notes due 2005.

As a result of the factors described above, consolidated net income excluding all special items in 2000 was $175.5 million, or $2.11 per share on a diluted basis, as compared with $110.5 million, or $1.54 per share on a diluted basis, in 1999 and $163.9 million, or $2.06 per share on a diluted basis, in 1998. Including the special items referred to above, net income in 2000 was $145.1 million, or $1.75 per share on a diluted basis, as compared with net income of $174.5 million, or $2.43 per share on a diluted basis, in 1999 and $151.4 million, or $1.90 per share on a diluted basis in 1998. Net income before special items as a percentage of sales was 1.9% in 2000 as compared with 1.7% and 2.8% in 1999 and 1998, respectively.

As the Company has increased its investment in foreign operations, the financial statement impact associated with the volatility of foreign currency exchange rates has become more apparent. The translation into U.S. dollars of the financial statements of the Company's foreign subsidiaries resulted in a charge recorded directly to shareholders' equity amounting to $8.5 million, $4.2 million and $17.0 million in 2000, 1999 and 1998, respectively. The charge in 2000 was due primarily to the weakening of the Euro and its associated currencies against the U.S. dollar. The charge in 1999 was due primarily to the weakening of British and French currencies against the dollar, and the charge in 1998 was due primarily to the weakening of the French, Canadian and Far East currencies against the U.S. dollar. The effect of foreign currency exchange rate fluctuations on the 2000 statement of income was not material due to the fact that Avnet's international operations represent only 32% of sales and a smaller percentage of income. Had the various average foreign currency exchange rates remained the same during 2000 as compared with 1999, Avnet's consolidated 2000 sales and net income would have been less than 4% and 1%, respectively, higher than the actual reported results for 2000.

LIQUIDITY AND CAPITAL RESOURCES

Over the last three years, cash generated from income before depreciation, amortization, the pre-tax gain on the dispositions of Allied Electronics and Channel Master, and other non-cash items amounted to $482.5 million. During that period, $900.4 million was used for working capital (excluding cash) needs resulting in $417.9 million of net cash flows used for operations. In addition, $241.9 million, net, was needed for other normal business operations including purchases of property, plant and equipment ($198.4 million) and dividends ($69.5 million), offset by cash generated from other items ($26.0 million). This resulted in $659.8 million being used for normal business operations. During that three-year period, the Company also used $598.8 million, net, for the repurchase of its common stock ($378.4 million) and the net cash used for acquisitions of operations in excess of the cash provided from dispositions ($220.7 million), offset somewhat by cash generated from other debt ($0.3 million). This overall use of cash of $1.258 billion was financed by the $1.366 billion raised from the issuance of commercial paper, the issuance in February 2000 of the 7 7/8% Notes due 2005, the issuance in August 1999 of the 6.45% Notes due 2003 and an increase in bank debt, offset by a $107.9 million addition to cash and cash equivalents.

In 2000, the Company generated $263.3 million from income before depreciation, amortization and other non-cash items, and used $759.2 million for working capital (excluding cash) needs, resulting in $495.9 million of net cash flows being used for operating activities. In addition, the Company used $81.7 million for other normal business operations including purchases of property, plant and equipment ($86.9 million) and dividends ($18.2 million), offset by cash generated from other items ($23.4 million). This resulted in $577.6 million being used for normal business operations. The Company also used $646.3 million for acquisitions and the payment of other debt. This overall use of cash of $1.224 billion was financed by a $1.079 billion increase in bank debt, commercial paper and the issuance of the 7 7/8% Notes due February 15, 2005, and a $145.0 million decrease in cash and cash equivalents.

In 1999, the Company generated $9.8 million from income before depreciation, amortization, the pre-tax gain on the sale of Allied Electronics and other non-cash items, and generated $62.2 million by reducing working capital (excluding cash), resulting in $72.0 million of net cash flows provided from operations. In addition, the Company used $99.5 million for other normal business operations including purchases of property, plant and equipment ($73.0 million) and dividends ($26.8 million), offset by cash generated from other immaterial items ($0.3 million). This resulted in $27.5 million being used for normal business operations. The Company also used $70.1 million to repurchase its common stock and generated $338.4 million from its disposition of Allied Electronics, net of cash used for acquisitions, and the issuance of other debt. Of this overall generation of cash of $240.8 million, $11.4 million was used to reduce debt and $229.4 million was added to cash and cash equivalents.

The Company's quick assets at June 30, 2000 totaled $1.918 billion as compared with $1.273 billion at July 2, 1999. At June 30, 2000, quick assets exceeded the Company's current liabilities by $14.2 million as compared with $476.8 million excess at the end of 1999. Working capital at June 30, 2000 was $1.969 billion as compared with $1.517 billion at July 2, 1999. At June 30, 2000 to support each dollar of current liabilities, the Company had $1.01 of quick assets and $1.03 of other current assets, for a total of $2.04 as compared with $2.91 at the end of the prior fiscal year. However, the above balance sheet amounts at July 2, 1999 were significantly impacted by the $377.0 million of cash received on that day in connection with the sale of Allied Electronics. On July 2, 1999, cash and cash equivalents included $240.1 million of before-tax proceeds from the sale of Allied Electronics with the balance of the cash received at closing having been used to reduce commercial paper outstanding. In addition, current liabilities at July 2, 1999 included approximately $134.7 million of accrued income taxes payable as a result of the gain on the sale of Allied Electronics. As indicated below, during 2000 the Company entered into a $500.0 million syndicated credit facility, which at June 30, 2000 was used to back-up a portion of its outstanding commercial paper. This short-term borrowing was the principal reason for the decline in the working capital ratio and the decrease in the quick ratio indicated above. These borrowings also contributed to an increase in the Company's debt to capital ratio at June 30, 2000. The Company is evaluating its capital structure and may, if deemed appropriate, issue equity or equity-linked securities.

In order to partially finance the cash component of the acquisition of Marshall Industries as described below and to provide additional working capital capacity, the Company entered into a $500.0 million 364-day credit facility in October 1999 with a syndicate of banks led by Bank of America. The Company may select from various interest rate options and maturities under this facility, although the Company intends to utilize the facility primarily as a back-up for its commercial paper program pursuant to which the Company is authorized to issue short-term notes for current operational business requirements. The credit agreement contains various covenants, none of which management believes materially limit the Company's financial flexibility to pursue its intended business strategy.

On February 8, 2000, the Company issued $360.0 million of 7 7/8% Notes due February 15, 2005 (the "7 7/8% Notes"). The proceeds from the sale of the 7 7/8% Notes were approximately $358.3 million after deduction of the underwriting discounts and other expenses associated with the sale of the 7 7/8% Notes. In August 1998, the Company issued $200.0 million of 6.45% Notes due August 15, 2003 (the "6.45% Notes"). The net proceeds received by the Company from the sale of the 6.45% Notes were approximately $198.3 million after deduction of the underwriting discounts and other expenses associated with the sale of the 6.45% Notes. The net proceeds from the 7 7/8% Notes and the 6.45% Notes have been used to repay indebtedness which the Company may re-borrow for general corporate purposes, including capital expenditures, acquisitions, repurchase of the Company's common stock and working capital needs.

In June 1999, the Company entered into separate credit agreements with Banca Commerciale Italiana and UniCredito Italiano. The agreements provide eighteen-month facilities with lines of credit totaling 83 billion Italian Lira (US dollar equivalent of approximately $40.4 million). The facilities are currently being used primarily as a source of working capital financing for one of the Company's Italian subsidiaries. In addition, in September 1998, the Company entered into an agreement with KBC, a Belgian bank, to finance the construction of the new Avnet Europe, NV/SA distribution center in Tongeren, Belgium. The agreement provides for multiple term loans totaling 665 million Belgian Francs (US dollar equivalent of approximately $15.6 million) which may be converted into term loans with maturities between three and fifteen years. The facilities are currently being used to finance real estate, computer equipment, infrastructure and project consultancy costs related to the new European distribution center.

The Company also has a five-year facility with a syndicate of banks led by Bank of America which expires in September 2002 and which provides a line of credit of up to $700.0 million. The Company may select from various interest rate options and maturities under this facility. This credit facility serves as a primary funding vehicle as well as a backup for the Company's commercial paper program. The credit agreement contains various covenants, none of which management believes materially limit the Company's financial flexibility to pursue its intended financial strategy.

During the last three years, the Company's shareholders' equity increased by $399.8 million to $1.902 billion at June 30, 2000, while total debt increased by $1.423 billion to $1.938 billion. The increase in shareholders' equity during that three-year period was the net result of the positive impact of net income ($471.0 million), shares issued in connection with the acquisitions of Marshall Industries and Eurotronics B.V. (SEI) ($351.9 million) and other items, net, principally related to stock option and incentive programs ($49.4 million), offset by the repurchase of common stock ($372.8 million), dividends ($69.9 million) and cumulative translation adjustments ($29.8 million). The Company's debt to capital (shareholders' equity plus total debt) ratio was approximately 51% at June 30, 2000 and 36% at July 2,1999. The Company's favorable balance sheet ratios would facilitate additional financing, if, in the opinion of management, such financing would enhance the future operations of the Company.

Currently, the Company does not have any material commitments for capital expenditures.

The Company and the former owners of a Company-owned site in Oxford, North Carolina have entered into a Consent Decree and Court Order with the Environmental Protection Agency (EPA) for the environmental clean-up of the site, the cost of which, according to the EPA's remedial investigation and feasibility study, is estimated to be approximately $6.3 million, exclusive of the $1.5 million in EPA past costs paid by the potentially responsible parties (PRP's). Pursuant to a Consent Decree and Court Order entered into between the Company and the former owners of the site, the former owners have agreed to bear at least 70% of the clean-up costs of the site, and the Company will be responsible for not more than 30% of those costs. In addition, the Company has become aware of claims that may be made against it and/or its Sterling Electronics Corp. subsidiary, which was acquired as part of the acquisition of Marshall Industries. Sterling once owned 92.46% of the capital stock of Phaostron, Inc. In August 1995, Sterling sold the interest in Phaostron to Westbase, Inc. At the time of the sale, Sterling and Westbase entered into an agreement related to environmental costs resulting from alleged contamination at a facility leased by Phaostron that is a part of the San Gabriel Valley Superfund Site. The agreement provided that Sterling would pay up to $800,000 for environmental costs associated with the site. The Company does not believe that Sterling or the Company will be responsible for environmental costs in excess of $800,000 and has establised what it believes to be adequate reserves for any share of such costs that may be borne by Sterling or the Company. In addition, the Company has received notice from a third party of its intention to seek indemnification for costs it may incur in connection with an environmental clean-up at a site in Rush, Pennsylvania resulting from the alleged disposal of wire insulation material at the site by a former unit of the Company. Based upon the information known to date, management believes that the Company has appropriately accrued in its financial statements for its share of the costs of the clean-ups with respect to the above mentioned sites. The Company is also a defendant in a lawsuit brought against it at an environmental clean-up site in Huguenot, New York. At this time, management cannot estimate the amount of the Company's potential liability, if any, for clean-up costs in connection with this site, but does not anticipate that this matter or any other contingent matters will have a material adverse impact on the Company's financial condition, liquidity or results of operations.

Management is not now aware of any commitments, contingencies or events within the Company's control which may significantly change its ability to generate sufficient cash from internal or external sources to meet its needs.

ACQUISITIONS

During 2000, the Company has acquired a number of businesses which are already having a substantial positive impact on the Company. On October 20, 1999, the Company acquired Marshall Industries, one of the world's largest distributors of electronic components and computer products, for a combination of cash and Avnet stock. The total cost of the acquisition of Marshall including estimated expenses was approximately $764.6 million, consisting of the cost for the Marshall shares of $326.8 million in cash, $269.3 million in Avnet stock and $7.0 million in Avnet stock options (net of related tax benefits of $4.8 million) as well as $17.5 million for direct transaction cost and estimated expenses and $144.0 million for the refinancing of Marshall net debt. The above dollar value of Avnet stock reflects the issuance of 6,817,943 shares of Avnet stock valued at an assumed price of $39.50 based on the average closing price of Avnet common stock for a period commencing two trading days before and ending two trading days after October 12, 1999, the day on which the exchange ratio for the Avnet stock component of the purchase price was determined pursuant to the merger agreement.

On October 14, 1999, the Company acquired 94% of the SEI Macro Group, an electronics components distributor headquartered in the United Kingdom, and during the second quarter of fiscal 2000 acquired 16% of Eurotronics B.V. (which did business under the name SEI), a pan-European electronics components distributor headquartered in the Netherlands. On January 3, 2000, the Company completed its acquisition of the SEI Macro Group and Eurotronics B.V. (SEI). The combined annual sales of Eurotronics B.V. (SEI) and the SEI Macro Group were approximately $750 million.

The Company also continues to expand its CM operations through acquisitions of businesses. In November 1999, the Company completed the acquisition of PCD Italia S.r.l. and Matica S.p.A. Milan, both value-added technical distributors of enterprise computing systems based in Milan, Italy, and in July, 1999, completed the acquisition of Integrand Solutions, the largest computer solutions integrator in Australia. In addition, on July 3, 2000 the Company acquired the Savoir Technology Group, Inc., the leading distributor of IBM mid-range server products in the Americas. In the merger, holders of Savoir common stock received 0.11452 of a share of Avnet common stock for each share of Savoir common stock, and cash in lieu of fractional Avnet shares. The exchange ratio, as well as the price paid for fractional shares, was based upon an Avnet stock price capped at $68.5472. Holders of Savoir series A preferred received 0.16098 of a share of Avnet common stock for each share they held and cash in lieu of fractional Avnet shares. The total cost of the acquisition of Savoir including estimated expenses was approximately $144.6 million, consisting of the cost for the Savoir shares of $110.8 million in Avnet stock and $0.8 million in Avnet stock options (net of related tax benefits of $0.5 million) as well as $0.8 million for direct transaction expenses and $32.2 million for the refinancing of Savoir net debt. The above dollar value of Avnet stock reflects the issuance of 1,868,477 shares (or 3,736,954 shares as adjusted to reflect the two-for-one stock split to be distributed on September 28, 2000) of Avnet stock valued at an assumed price of $59.32 based on the average closing price of Avnet common stock for a period commencing two trading days before and ending one trading day after June 30, 2000. The acquisition will be accounted for as a purchase.

On August 7, 2000, a consortium consisting of the Company, Schroder Ventures and another distributor entered into a share purchase agreement to purchase the VEBA Electronics Group from Germany-based E.On AG for approximately $2.35 billion in cash, including the assumption of debt. Under the terms of the agreement, the Company will acquire (a) the Germany-headquarted EBV Group, consisting of EBV Electronik and WBC, both pan-European semiconductor distributors, and Atlas Services Europe, a logistics provider for EBV and WBC; and (b) the Germany-based RKE Systems, a computer products and services distributor, for approximately $740.0 million, including the assumption of debt and subject to closing adjustments. As part of the agreement among the consortium members, Avnet will loan $50.0 million to Schroder Ventures, or one of its affiliated companies, to enable Schroder Ventures to close the transaction. The Company intends to finance the transaction through the issuance of a combination of short-term and long-term debt; however as stated above, the Company is evaluating its capital structure and may, if deemed appropriate, issue equity or equity-linked securities. The Company expects to complete this acquisition during the quarter ended December 29, 2000, provided the necessary regulatory approvals are obtained.

To capitalize on growing world markets for electronic components and computer products, the Company has pursued and expects to continue to pursue strategic acquisitions to expand its business. Management believes that the Company has the ability to generate sufficient capital resources from internal or external sources in order to continue its expansion program. In addition, as with past acquisitions, management does not expect that future acquisitions will materially impact the Company's liquidity.

MARKET RISKS

Many of the Company's operations, primarily its international subsidiaries, occasionally purchase and sell products in currencies other than their functional currencies. This subjects the Company to the risks associated with fluctuations of foreign currency exchange rates. The Company reduces this risk by utilizing natural hedging (offsetting receivables and payables) as well as by creating offsetting positions through the use of derivative financial instruments, primarily forward foreign exchange contracts with maturities of less than sixty days. The market risk related to the foreign exchange contracts is offset by the changes in valuation of the underlying items being hedged. The amount of risk and the use of derivative financial instruments described above is not material to the Company's financial position or results of operations. As of September 15, 2000, approximately 29% of the Company's outstanding debt was in fixed rate instruments and 71% was subject to variable short-term interest rates. Accordingly, the Company will be impacted by any change in short-term interest rates. The Company does not hedge either its investment in its foreign operations or its floating interest rate exposures.

THE YEAR 2000 ISSUE

As reported in the Company's prior filings, the Company was engaged in modifying its computer systems and applications which used two-digit fields to designate a year ("Year 2000 Issue"). The Company engaged outside consulting firms and utilized its internal resources to perform a comprehensive remediation of the Company's computer systems before the Year 2000. The Company incurred costs of approximately $17 million in these remediation efforts. As of the date of this Report, neither the Company, nor to its knowledge, any of its major customers or suppliers, have experienced any significant disruption of business due to Year 2000 issues.

THE EURO

Effective on January 1, 1999, a single European currency (the "Euro") was introduced and certain member countries of the European Union established fixed conversion rates between their existing national currencies and the Euro. The participating countries adopted the Euro as their common legal currency on that date, and during the transition period through January 1, 2002 either the Euro or a participating country's national currency will be accepted as legal currency. The Company is addressing the issues raised by the introduction of the Euro including, among other things, the potential impact on its internal systems, tax and accounting considerations, business issues and foreign exchange rate risks. Although management is still evaluating the impact of the Euro, management does not anticipate, based upon information currently available, that the introduction of the Euro will have a material adverse impact on the Company's financial condition or results of operations.

AVNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Years Ended June 30, 2000	July 2, 1999	June 26, 1998
Sales	$ 9,172,205	$ 6,350,042	$ 5,916,267
Cost of sales (Note 14)	7,883,719	5,401,472	4,935,848
Gross profit	1,288,486	948,570	980,419
Selling, shipping, general and administrative expenses (Note 14)	954,500	775,337	709,243
Operating income	333,986	173,233	271,176
Other income, net	4,873	1,875	2,363
Interest expense	(84,328)	(52,096)	(39,988)
Gain on dispositions of businesses (Note 14)	—	252,279	33,795
Income before income taxes	254,531	375,291	267,346
Income taxes (Note 7)	109,390	200,834	115,922
Net income	$ 145,141	$ 174,457	$ 151,424
Earnings per share:			
Basic	$ 1.77	$ 2.45	$ 1.92
Diluted	$ 1.75	$ 2.43	$ 1.90
Shares used to compute earnings per share (Note 1):			
Basic	82,213	71,190	78,750
Diluted	83,124	71,834	79,646

See notes to consolidated financial statements

All share and per share data indicated above have been restated to reflect a two-for-one split of the Company's common stock approved by the Board of Directors on August 31, 2000. These shares are to be distributed on September 28, 2000 to shareholders of record on September 18, 2000 (See Note 1).

AVNET, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	June 30, 2000	July 2, 1999
Assets:		
Current assets:		
Cash and cash equivalents	$ 167,192	$ 311,982
Receivables, less allowances of $43,623 and $27,626, respectively	1,750,827	960,639
Inventories (Note 3)	1,887,280	997,247
Other	67,956	43,455
Total current assets	3,873,255	2,313,323
Property, plant and equipment, net (Note 4)	289,902	194,012
Goodwill, net of accumulated amortization of $79,648 and $60,404, respectively (Note 1)	856,831	385,648
Other assets	224,367	91,714
Total assets	$ 5,244,355	$ 2,984,697
Liabilities:		
Current liabilities:		
Borrowings due within one year (Note 5)	$ 499,287	$ 288
Accounts payable	1,102,510	480,377
Accrued expenses and other (Note 6)	301,977	315,198
Total current liabilities	1,903,774	795,863
Long-term debt, less due within one year (Note 5)	1,438,610	791,226
Total liabilities	3,342,384	1,587,089
Commitments and contingencies (Notes 9 and 11)		
Shareholders' equity (Notes 1 and 10):		
Common stock $1.00 par, authorized 120,000,000 shares, issued 90,757,000 shares and 44,416,000 shares, respectively	90,757	44,416
Additional paid-in capital	309,604	435,930
Retained earnings	1,616,692	1,496,357
Cumulative translation adjustments	(54,582)	(46,041)
Valuation adjustments	2,293	—
Treasury stock at cost, 2,396,000 shares and 9,225,000 shares, respectively	(62,793)	(533,054)
Total shareholders' equity	1,901,971	1,397,608
Total liabilities and shareholders' equity	$ 5,244,355	$ 2,984,697

See notes to consolidated financial statements

The share information indicated above for June 30, 2000 only has been adjusted to take into account a two-for-one split of the Company's common stock approved by the Board of Directors on August 31, 2000. These shares are to be distributed on September 28, 2000 to shareholders of record on September 18, 2000 (See Note 1).

AVNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended June 30, 2000, July 2, 1999 and June 26, 1998
(In thousands, except per share amounts)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Cumulative Translation Adjustments	Valuation Adjustments	Treasury Stock	Total Shareholders' Equity
Balance, June 27, 1997	$ 44,032	$ 425,180	$ 1,215,550	$ (24,767)	$ —	$ (157,803)	$ 1,502,192
Net income			151,424				151,424
Translation adjustments				(17,037)			(17,037)
Comprehensive income							134,387
Dividends, $0.30 per share			(23,986)				(23,986)
Repurchase of stock						(302,606)	(302,606)
Other, net, principally stock option and incentive programs	303	9,515				(3,910)	5,908
Balance, June 26, 1998	44,335	434,695	1,342,988	(41,804)	—	(464,319)	1,315,895
Net income			174,457				174,457
Translation adjustments				(4,237)			(4,237)
Comprehensive income							170,220
Dividends, $0.30 per share			(21,088)				(21,088)
Repurchase of stock						(70,147)	(70,147)
Other, net, principally stock option and incentive programs	81	1,235				1,412	2,728
Balance, July 2, 1999	44,416	435,930	1,496,357	(46,041)	—	(533,054)	1,397,608
Net income			145,141				145,141
Translation adjustments				(8,541)			(8,541)
Valuation adjustments (net of tax of $1,562)					2,293		2,293
Comprehensive income							138,893
Dividends, $0.30 per share			(24,806)				(24,806)
Acquisitions of operations		(117,256)				469,133	351,877
Two-for-one stock split (Note 1)	45,378	(45,378)					
Other, net, principally stock option and incentive programs	963	36,308				1,128	38,399
Balance, June 30, 2000	$ 90,757	$ 309,604	$ 1,616,692	$ (54,582)	$ 2,293	$ (62,793)	$ 1,901,971

See notes to consolidated financial statements

AVNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years Ended June 30, 2000	July 2, 1999	June 26, 1998
Cash flows from operating activities:			
Net income	$ 145,141	$ 174,457	$ 151,424
Non-cash and other reconciling items:			
Depreciation and amortization	75,561	52,275	50,542
Deferred taxes (Note 7)	422	(32,294)	(1,721)
Other, net (Note 12)	42,140	24,922	42,936
Pre-tax gain on dispositions of businesses (Notes 2 and 14)	—	(209,547)	(33,795)
	263,264	9,813	209,386
Changes in (net of effects from businesses acquired):			
Receivables	(403,189)	(64,447)	(113,745)
Inventories	(514,400)	19,383	(94,300)
Payables, accruals and other, net	158,416	107,195	4,717
Net cash flows (used for) provided from operating activities	(495,909)	71,954	6,058
Cash flows from financing activities:			
Repurchase of common stock	—	(70,147)	(308,218)
Issuance of notes in public offering, net	358,326	198,305	—
Issuance (repayment) of commercial paper and bank debt, net	720,709	(209,773)	298,749
(Payment of) proceeds from other debt	(138)	(128)	604
Cash dividends (Note 12)	(18,180)	(26,735)	(24,548)
Other, net	24,439	603	3,973
Net cash flows provided from (used for) financing activities	1,085,156	(107,875)	(29,440)
Cash flows from investing activities:			
Purchases of property, plant and equipment	(86,927)	(73,016)	(38,437)
(Acquisition) disposition of operations, net (Notes 2 and 14)	(603,143)	338,584	86,853
Investments in non-consolidated entities	(42,972)	—	—
Net cash flows (used for) provided from investing activities	(733,042)	265,568	48,416
Effect of exchange rate changes on cash and cash equivalents	(995)	(272)	(1,739)
Cash and cash equivalents:			
- (decrease) increase	(144,790)	229,375	23,295
- at beginning of year	311,982	82,607	59,312
- at end of year	$ 167,192	$ 311,982	$ 82,607

Additional cash flow information (Note 12)

See notes to consolidated financial statements

1. Summary of significant accounting policies:

Principles of consolidation - The accompanying financial statements include the accounts of the Company and all of its subsidiaries. All intercompany accounts and transactions have been eliminated. Minority interests at the end of 2000 and 1999, which amounts are not material, are included in the caption "Accrued expenses and other".

Inventories - Stated at cost (first-in, first-out) or market, whichever is lower.

Depreciation and amortization - Depreciation and amortization is generally provided for by the straight-line method over the estimated useful lives of the assets.

Goodwill - Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Except for an immaterial amount of goodwill applicable to purchases made before October 31, 1970, goodwill is being amortized on a straight-line basis over 40 years.

Long-lived assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets in question may not be recoverable. The Company continually evaluates the carrying value and the remaining economic useful life of all long-lived assets, and will adjust the carrying value and the related depreciation and amortization period if and when appropriate.

Foreign currency translation – The assets and liabilities of foreign operations are translated into U.S. dollars at the exchange rate in effect at the balance sheet date with the related translation gains and losses reported as a separate component of shareholders' equity and comprehensive income. Results of operations are translated using the average exchange rate prevailing throughout the period.

Income taxes - No provision for U.S. income taxes has been made for $138,216,000 of cumulative unremitted earnings of foreign subsidiaries at June 30, 2000 because those earnings are expected to be permanently reinvested outside the U.S. If such earnings were remitted to the U.S., any net U.S. income taxes would not have a material impact on the results of operations of the Company.

Stock split – On August 31, 2000, the Board of Directors declared a two-for-one stock split to be effected in the form of a stock dividend. The additional common stock will be distributed on September 28, 2000 to shareholders of record on September 18, 2000. All references in this report to the number of shares, per share amounts, and market prices of the Company's common stock have been restated to reflect the stock split and the resulting increased number of shares outstanding.

Earnings per share - Basic earnings per share is computed based on the weighted average number of common shares outstanding and excludes any potential dilution. Diluted earnings per share reflects potential dilution from the exercise or conversion of securities into common stock. The number of dilutive securities for 2000, 1999 and 1998 amounting to 911,000 shares, 644,000 shares and 896,000 shares, respectively, relate to stock options and restricted stock awards. All earnings per share have been retroactively restated to reflect the two-for-one stock split approved by the Board of Directors on August 31, 2000.

Comprehensive income – Effective as of the beginning of fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income". SFAS 130 establishes reporting standards designed to measure all of the changes in shareholders' equity that result from transactions and other economic events of the period excluding transactions with owners ("Comprehensive Income"). Comprehensive Income for the Company consists of net income, equity foreign currency translation adjustments and, in fiscal 2000, a net unrealized gain on investments in marketable securities.

Cash equivalents - The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

1. Summary of significant accounting policies (continued):

Revenue Recognition – Revenue from product sales is recognized upon shipment to customers.

Concentration of credit risk - Financial instruments which potentially subject the Company to a concentration of credit risk principally consist of cash and cash equivalents and trade accounts receivable. The Company invests its excess cash primarily in overnight Eurodollar time deposits with quality financial institutions. The Company sells electronic components and computer products primarily to original equipment manufacturers including military contractors and the military, throughout North and South America, Europe and the Asia/Pacific region. To reduce credit risk, management performs ongoing credit evaluations of its customers' financial condition. The Company maintains reserves for potential credit losses, but has not experienced any material losses related to individual customers or groups of customers in any particular industry or geographic area.

Derivative financial instruments - Many of the Company's operations, primarily its international subsidiaries, occasionally purchase and sell product in currencies other than their functional currencies. This subjects the Company to the risks associated with the fluctuations of foreign currency exchange rates. The Company reduces this risk by utilizing natural hedging (offsetting receivables and payables) as well as by creating offsetting positions through the use of derivative financial instruments, primarily forward foreign exchange contracts with maturities of less than sixty days. The market risk related to the foreign exchange contracts is offset by the changes in valuation of the underlying items being hedged. The amount of risk and the use of derivative financial instruments described above is not material to the Company's financial position or results of operations. The Company does not hedge its investment in its foreign operations nor its floating interest rate exposures.

Fiscal year – The Company operates on a "52/53 week" fiscal year which ends on the Friday closest to June 30th. Fiscal year 1999 contained 53 weeks as compared with 52 weeks in fiscal 2000 and 1998. Unless otherwise noted, all references to the "year 2000" or any other "year" shall mean the Company's fiscal year.

Management estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New accounting standards – Effective July 1, 2000, the Company adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement to the extent effective, and requires that the Company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The adoption of SFAS 133 did not have a material effect on the Company's financial statements.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition,"which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. In June 2000, the SEC issued Staff Accounting Bulletin 101B ("SAB 101B"), which extends the effective date of SAB 101 to the Company's fourth quarter of fiscal 2001. Although the Company has not fully assessed the implications of SAB 101, management does not believe the adoption of the statement will have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

2. Acquisitions and dispositions:

Since June 28, 1997, the Company has completed sixteen acquisitions - three in North America, six in Europe, five in the Asia/Pacific region, one in the Middle East and one in South America. Seven of the acquisitions were completed in 2000, four were completed during 1999 and five were completed in 1998. All acquisitions have been accounted for as purchases.

2. Acquisitions and dispositions (continued):

The acquisitions completed in 2000 consisted of Marshall Industries, Integrand Solutions, Eurotronics B.V. (SEI), the SEI Macro Group, PCD Italia S.r.l. and Matica S.p.A. (counted as a single acquisition), Cosco Electronics/Jung Kwang and the remaining 60% of SEI Nordstar S.p.A. The acquisitions completed in 1999 consisted of a 60% interest in Max India, Ltd., including 100% of Max India's Hong Kong – based subsidiary, a 70% interest in Gallium Electronics, Ltd., the Computer Solutions Division (CSD) of JBA International, Inc. and a 70% interest in Bridge International. The acquisitions completed in 1998 consisted of ECR Sales Management, Inc., EXCEL-MAX Pte Ltd., CiNERGi Pte Ltd., Bytech Systems Ltd. and Optilas International SA.

The acquisitions completed during 2000 required a total investment of $961,243,000 (net of $762,000 of cash on the books of the companies acquired) of which $603,143,000 was paid in cash, $351,877,000 in Avnet stock and $6,985,000 in Avnet stock options, net of related tax benefits of $4,760,000. In the aggregate, the operations acquired during 2000, had sales totaling approximately $2,684,000,000 during the fiscal year of each such operation immediately proceeding its acquisition.

The following unaudited pro forma results reflect the acquisition of Marshall Industries as if it occurred on July 3, 1999 and June 27, 1998, the first day of the Company's 2000 and 1999 fiscal years, respectively, and does not purport to present what actual results would have been had the acquisition, in fact, occurred at those dates or to project results for any future period:

	Years Ended	
(Thousands, except per share data)	June 30, 2000	July 2, 1999
Sales	$ 9,734,915	$ 8,065,147
Income before income taxes	267,573	371,585
Net Income	152,187	159,527
Diluted earnings per share	$ 1.74	$ 1.86

The unaudited pro forma results shown above include the special charges referred to in Note 14. In addition, the unaudited pro forma results shown above exclude any potential benefits that might result from the acquisition due to synergies that may be derived and from the elimination of any duplicated costs. The historical results of operations of other companies acquired during 2000 would not have had a material effect on the Company's results of operations in that year, on a pro forma basis.

Cash expended (net of cash on the books of the companies acquired) in 1999 and 1998 relating to acquisitions totaled approximately $38,416,000 and $9,378,000, respectively. In the aggregate, the operations acquired during 1999 and 1998 had sales totaling approximately $184,000,000 and $119,000,000, respectively, during the fiscal year of each such operation immediately preceding its acquisition. The historical results of operations of the companies acquired in 1999 and 1998 would not have had a material effect on the Company's results of operations in those years, on a pro forma basis. On July 2, 1999, the last day of fiscal 1999, the Company completed the disposition of its Allied Electronics business and during 1998 the Company disposed of its Channel Master and Avnet Industrial businesses (See note 14).

Subsequent to the end of 2000, on July 3, 2000, the Company completed the acquisition of the Savoir Technology Group, Inc., the leading distributor of IBM mid-range server products in the Americas, by issuing approximately 1,868,000 shares (or 3,736,000 shares as adjusted to reflect the two-for-one stock split to be distributed on September 28, 2000) of Avnet common stock. Savoir Technology Group, Inc. reported 1999 revenues of $767,000,000. The Company has also entered into an agreement to purchase part of the VEBA Electronics Group from Germany-based E.On AG (formerly VEBA AG) for a cash purchase price of approximately $740,000,000, including the assumption of debt. Under the terms of the agreement, the Company will acquire (a) the Munich, Germany- headquartered EBV Group, comprised of EBV Elektronik and WBC, both pan-European semiconductor distributors, and Atlas Services Europe, logistics provider for EBV and WBC; and (b) the Nettetal, Germany-based RKE Systems, a computer products and services distributor. The combined companies being acquired from E.On AG reported calendar 1999 sales of approximately $1,800,000,000 (using average exchange rates for calendar 1999).

3. Inventories:

(Thousands)	June 30, 2000	July 2, 1999
Finished goods	$ 1,811,699	$ 909,609
Work-in-process	6,742	5,625
Raw materials	68,839	82,013
	$ 1,887,280	$ 997,247

4. Property, plant and equipment, net:

Property, plant and equipment are recorded at cost and consist of the following:

(Thousands)	June 30, 2000	July 2, 1999
Land	$ 10,398	$ 5,200
Buildings	101,032	77,523
Machinery, fixtures and equipment	483,987	306,028
Leasehold improvements	17,302	12,611
	612,719	401,362
Less accumulated depreciation and amortization	322,817	207,350
	$ 289,902	$ 194,012

Depreciation and amortization expense related to property, plant and equipment was $53,900,000, $37,825,000 and $37,156,000 in 2000, 1999 and 1998, respectively.

5. External financing:

(Thousands)	June 30, 2000	July 2, 1999
7 7/8% Notes due February 15, 2005	$ 360,000	$ —
6 7/8% Notes due March 15, 2004	100,000	100,000
6.45% Notes due August 15, 2003	200,000	200,000
Commercial paper	559,395	202,200
Bank credit facilities	689,704	272,160
Other	28,798	17,154
	1,937,897	791,514
Less borrowings due within one year	499,287	288
Long-term debt	$ 1,438,610	$ 791,226

In October 1999, the Company entered into a $500,000,000 364-day credit facility with a syndicate of banks led by Bank of America in order to partially finance the cash component of the acquisition of Marshall Industries and to provide additional working capital capacity. The Company may select from various interest rate options and maturities under the facility, although the Company intends to utilize the facility primarily as a back-up for its commercial paper program pursuant to which the Company is authorized to issue short-term notes for current operational business requirements.

5. External financing (continued):

The credit facility contains various covenants, none of which management believes materially limit the Company's financial flexibility to pursue its intended business strategy. The Company intends to renew and possibly increase the amount of the 364-day facility for another 364-day period. There are no outstanding borrowings under the facility. The Company also has an additional credit facility with Bank of America which provides a line of credit up to $100,000,000 and which expires in October 2000.

In February 2000, the Company raised $360,000,000 (before deducting underwriting expenses and other costs) in the public market by issuing the 7 7/8% Notes due February 2005.

In the first quarter of 1998, the Company renegotiated its revolving credit agreement with a syndicate of banks led by NationsBank of North Carolina, N.A., which has now merged with Bank of America. The agreement provides a five-year facility with a line of credit of up to $700,000,000 of which approximately $619,000,000 was outstanding at June 30, 2000 with the remainder serving as a back-up for outstanding commercial paper. This credit facility is currently being used primarily as a backup facility to the Company's commercial paper program and as a primary funding vehicle for foreign currency denominated borrowings at floating rates of interest. The approximate weighted average interest rates on outstanding commercial paper and foreign currency denominated borrowings under this facility at June 30, 2000 were 7.0% and 4.5%, respectively, and at July 2, 1999 were 5.4% and 4.4%, respectively. As of June 30, 2000, the Company was in compliance with the various covenants contained in the agreement.

The Company also has bank credit facilities in certain European and Asian countries with various maturities and interest rates.

At June 30, 2000, the fair value of the 7 7/8% Notes due February 15, 2005, the 6 7/8% Notes due March 15, 2004 and the 6.45% Notes due August 15, 2003 were approximately $359,200,000, $95,800,000 and $191,500,000, respectively. Annual payments on external financing in 2001, 2002, 2003, 2004 and 2005 will be $499,287,000, $2,218,000, $701,491,000, $301,274,000 and $360,803,000, respectively.

6. Accrued expenses and other:

(Thousands)	June 30, 2000	July 2, 1999
Payroll, commissions and related	$ 91,853	$ 56,447
Insurance	14,478	14,159
Income taxes	40,964	153,245
Dividends payable (Note 12)	6,626	-
Other	148,056	91,347
	$ 301,977	$ 315,198

The significantly higher amount of accrued income taxes at July 2, 1999 as compared with the current year end relates primarily to the income taxes due on the gain on the sale of Allied Electronics.

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Income taxes:

The Company follows the liability method of accounting for income taxes. Deferred income taxes are recorded for temporary differences between the amount of income and expense reported for financial reporting and tax purposes.

A reconciliation between the federal statutory tax rate and the effective tax rate is as follows:

	Years Ended		
	June 30, 2000	July 2, 1999	June 26, 1998
Federal statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	5.2	7.6	5.3
Amortization and disposition of goodwill	2.6	11.8	1.9
Other, net	.2	(.9)	1.2
Effective tax rate	43.0%	53.5%	43.4%

The significant impact of the amortization and disposition of goodwill on the 1999 effective tax rate was due to the elimination of goodwill related to Allied Electronics and Avnet Setron which was not tax benefited (See note 14.)

The components of the provision for income taxes are indicated in the next table. The provision (future tax benefit) for deferred income taxes results from temporary differences arising principally from inventory valuation, accounts receivable valuation, net operating losses related to foreign operations, certain accruals and depreciation.

	Years Ended		
(Thousands)	June 30, 2000	July 2, 1999	June 26, 1998
Current:			
Federal	$ 100,305	$ 177,271	$ 89,456
State and local	22,958	44,759	22,371
Foreign	26,567	11,098	5,816
Total current taxes	149,830	233,128	117,643
Deferred:			
Federal	(11,864)	(5,924)	(1,163)
State and local	(2,672)	(747)	(538)
Foreign	(25,904)	(25,623)	(20)
Total deferred taxes	(40,440)	(32,294)	(1,721)
Provision for income taxes	$ 109,390	$ 200,834	$ 115,922

7. Income taxes (continued):

The significant components of deferred tax assets and liabilities included on the balance sheet were as follows:

(Thousands)	June 30, 2000	July 2, 1999
Deferred tax assets:		
Inventory valuation	$ 25,610	$ 16,388
Accounts receivable valuation	12,215	6,434
Foreign tax loss carry-forwards	52,436	29,084
Various accrued liabilities and other	40,269	23,328
	130,530	75,234
Deferred tax liabilities:		
Depreciation and amortization of property, plant and equipment	3,069	2,845
Other	4,679	1,287
	7,748	4,132
Net deferred tax assets	$ 122,782	$ 71,102

8. Pension and profit sharing plans:

The Company's noncontributory defined benefit pension plan (the "Plan") and its 401(k) plan cover substantially all domestic employees, except for those who were employed at Channel Master, which was sold during 1998, and who were covered by a profit sharing plan. The expense recorded in 1998 related to the profit sharing plan was $427,000. The expense relating to the Avnet 401(k) Plan for 2000, 1999 and 1998 amounted to $1,332,000, $711,000 and $553,000, respectively. The noncontributory pension plan was amended as of January 1, 1994 to provide defined benefits pursuant to a cash balance feature whereby a participant accumulates a benefit based upon a percentage of current salary, which varies with age, and interest credits. At June 30, 2000, the market value of the pension plan assets was $201,721,000. These assets were comprised of common stocks (72%), U.S. Government securities (5%), corporate debt obligations (21%), and money market funds (2%).

The following tables outline changes in benefit obligations, plan assets, and the funded status of the Plan as of the end of 2000 and 1999:

(Thousands)	June 30, 2000	July 2, 1999
Changes in benefit obligations:		
Benefit obligations at beginning of year	$ 140,203	$ 140,983
Service cost	8,588	8,525
Interest cost	10,515	9,510
Actuarial (gain) loss	(1,861)	(11,436)
Benefits paid	(10,621)	(7,379)
Benefit obligations at end of year	$ 146,824	$ 140,203

8. Pension and profit sharing plans (continued):

	June 30, 2000	July 2, 1999
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 189,778	$ 167,451
Actual return on plan assets	22,464	29,706
Benefits paid	(10,621)	(7,379)
Contributions	100	—
Fair value of plan assets at end of year	$ 201,721	$ 189,778
Information on funded status of plan and the amount recognized:		
Funded status of the plan	$ 54,897	$ 49,575
Unrecognized transition asset	(1,980)	(4,810)
Unrecognized net actuarial gain	(47,808)	(38,151)
Unamortized prior service credit	(1,972)	(2,293)
Prepaid pension cost recognized in the balance sheet	$ 3,137	$ 4,321

Weighted average assumptions used to calculate actuarial present values of benefit obligations were as follows:

	2000	1999
Discount rate	7.75%	7.0%
Expected return on plan assets	9.50%	9.0%

Under the cash balance plan, service costs are based solely on current year salary levels; therefore, projected salary increases are not taken into account.

Components of net periodic benefit costs during the last three years are as follows:

	Years Ended		
(Thousands)	June 30, 2000	July 2, 1999	June 26, 1998
Service Cost	$ 8,588	$ 8,525	$ 6,860
Interest cost	10,515	9,510	9,056
Expected return on plan assets	(14,668)	(12,352)	(11,311)
Amortization of transition asset	(2,830)	(2,829)	(2,830)
Recognized net actuarial gain	—	127	—
Amortization of prior service credit	(321)	(321)	(321)
Net periodic benefit cost	$ 1,284	$ 2,660	$ 1,454

Not included in the above tabulations are pension plans of certain non-U.S. subsidiaries which are not material.

9. Long-term leases:

The Company leases many of its operating facilities and is also committed under lease agreements for transportation and operating equipment. Rent expense charged to operations for the three years ended June 30, 2000 is as follows:

	Years Ended		
(Thousands)	June 30, 2000	July 2, 1999	June 26, 1998
Buildings	$ 28,695	$ 22,744	$ 21,288
Equipment	5,692	4,926	4,938
	$ 34,387	$ 27,670	$ 26,226

At June 30, 2000, aggregate future minimum lease commitments, principally for buildings, in 2001, 2002, 2003, 2004, 2005 and thereafter (through 2015) are $31,649,000, $25,827,000, $21,878,000, $18,491,000, $13,985,000 and $44,436,000, respectively.

10. Stock-based compensation plans:

Stock option plans:

The Company has five stock option plans with shares still available for grant:

	Plan				
	1990	1995	1996	1997	1999
Minimum exercise price as a percentage of fair market value at date of grant	100%	85%	100%	85%	85%
Plan termination date	11/28/00	8/31/05	12/31/06	11/19/07	11/21/09
Shares available for grant at June 30, 2000	74,400	47,750	1,043,600	105,900	4,000,000

If applicable, the excess of the fair market value at the date of grant over the exercise price is considered deferred compensation which is amortized and charged against income as it is earned. The maximum term of options granted under any of the plans is 10 years from the date of grant.

The following is a summary of the changes in outstanding options for the three years ended June 30, 2000:

	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	6,513,054	$21.70	4,765,810	$23.29	4,424,176	$19.84
Granted	2,493,674	16.05	2,186,000	18.18	1,115,000	31.34
Exercised	(1,926,224)	13.82	(162,206)	15.95	(605,566)	13.20
Canceled or expired	(247,568)	21.93	(276,550)	24.66	(167,800)	22.00
Outstanding at end of year	6,832,936	21.85	6,513,054	21.70	4,765,810	23.29
Exercisable at the end of year	3,445,436	21.77	2,879,804	20.90	2,158,310	18.70

10. Stock-based compensation plans (continued):

The shares granted in 2000 shown above include 1,388,474 options granted to former employees of Marshall Industries as substitute options for Marshall options outstanding on the date of acquisition. These options are subject to the terms of the various Marshall plans assumed by Avnet as part of the acquisition. Of these options, 73,390 had not yet been exercised at June 30, 2000.

The following information relates to options outstanding at June 30, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Of Options	Weighted Average Exercise Price
Under $10	87,796	$8.81	36 Months	87,796	$8.81
$10.00 – 15.00	369,228	13.20	47 Months	369,228	13.20
15.00 – 20.00	2,417,500	17.87	86 Months	983,500	17.85
20.00 – 25.00	2,746,912	22.87	86 Months	1,408,412	23.54
25.00 – 30.00	122,000	26.61	100 Months	30,000	26.50
30.00 – 35.00	1,089,500	31.56	87 Months	566,500	31.53

Employee stock purchase plan:

In October 1995, the Company implemented the Avnet Employee Stock Purchase Plan (ESPP). Under the terms of the ESPP, eligible employees of the Company are offered options to purchase shares of Avnet common stock at a price equal to 85% of the fair market value on the first or last day, whichever is lower, of each monthly offering period. A total of 1,000,000 shares of Avnet common stock were initially reserved for sale under the ESPP and in November 1998 an additional 1,000,000 shares were reserved. At June 30, 2000, employees had purchased 1,428,150 shares and 571,850 shares were still available for purchase under the ESPP.

Incentive stock:

The Company has an Incentive Stock Program wherein a total of 360,790 shares were still available for award at June 30, 2000 based upon operating achievements. Delivery of incentive shares is spread equally over a four-year period and is subject to the employee's continuance in the Company's employ. As of June 30, 2000, 98,606 shares previously awarded have not yet been delivered. The program will terminate on December 31, 2004.

At June 30, 2000, 13,135,832 common shares were reserved for stock options (including the ESPP) and stock incentive programs.

Pro forma information:

The Company follows Accounting Principles Board Opinion 25 ("APB 25"), "Accounting for Stock Issued to Employees", in accounting for its stock-based compensation plans. In applying APB 25, no expense was recognized for options granted under the various stock option plans (except in the rare circumstances where the exercise price was less than the fair market value on the date of the grant) nor was expense recognized in connection with shares purchased by employees under the ESPP. Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation", requires disclosure of pro forma net income as if a fair value-based method of measuring stock-based compensation had been applied. Reported and pro-forma net income and diluted earnings per share are as follows:

10. Stock-based compensation plans (continued):

(Thousands, except per share amounts)

	Years Ended		
	June 30, 2000	July 2, 1999	June 26, 1998
Net income:			
As reported	$ 145,141	$ 174,457	$ 151,424
Pro forma	137,849	168,046	146,599
Diluted earnings per share:			
As reported	$ 1.75	$ 2.43	$ 1.90
Pro forma	1.67	2.36	1.85

The fair value of the stock options granted is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions used, and the weighted average estimated fair value of an option granted are as follows:

	Years Ended		
	June 30, 2000	July 2, 1999	June 26, 1998
Expected life (years)	5.9	5.9	6.0
Risk-free interest rate	5.8%	4.6%	6.1%
Volatility	31.0%	24.0%	23.0%
Dividend yield	1.4%	1.7%	1.0%
Weighted average fair value	$ 7.91	$ 4.52	$ 10.44

11. Contingent liabilities:

From time to time, the Company may become liable with respect to pending and threatened litigation, taxes and environmental and other matters. The Company has been designated a potentially responsible party or has had other claims made against it in connection with environmental clean-ups at several sites. Based upon the information known to date, the Company believes that it has appropriately reserved for its share of the costs of the clean-ups and it is not anticipated that any contingent matters will have a material adverse impact on the Company's financial condition, liquidity or results of operations.

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Additional cash flow information:

Other non-cash and reconciling items primarily includes provisions for doubtful accounts and certain non-recurring items (See Note 14).

Due to the Company's fiscal year end (See Note 1) and its historical dividend payment dates, the fiscal year ended July 2, 1999 includes the cash payment of the July 1, 1999 dividend. This results in the inclusion of five quarterly dividend payments in 1999 as compared with three quarterly payments in 2000 and four in 1998.

The net cash disbursed in each of the three years in connection with acquisitions (See Note 2), as well as the net cash collected in those years from dispositions, are reflected as cash flows from "(acquisition) disposition of operations, net."

Interest and income taxes paid were as follows:

	Years Ended		
	June 30, 2000	July 2, 1999	June 26, 1998
Interest	$ 73,545	$ 47,764	$ 38,906
Income taxes	229,724	91,913	126,851

13. Segment information:

The Company currently consists of three major operating groups, Electronics Marketing ("EM"), Computer Marketing ("CM") and Avnet Applied Computing ("AAC") which began operating in the Americas and in Europe effective as of the beginning of the second and third quarters of 2000, respectfully. The results for AAC in the Americas and Europe prior to those dates are included in EM and CM as the results of the operating groups have not been restated. EM focuses on the global distribution of and value-added services associated with electronics components; CM focuses on middle-to-high-end, value-added computer products distribution and related services; and AAC serves the needs of personal computer OEMs and system integrators by providing leading-edge technologies such as microprocessors, and serves the needs of embedded systems OEMs that require technical services such as product prototyping, configurations and other value-added services.

13. Segment information (continued):

(Millions)	Years Ended June 30, 2000	July 2, 1999	June 26, 1998
Sales:			
Electronics Marketing	$ 6,638.2	$ 4,795.1	$ 4,474.2
Computer Marketing	1,863.5	1,554.9	1,403.7
Avnet Applied Computing	670.5	—	—
Video Communications	—	—	38.4
	$ 9,172.2	$ 6,350.0	$ 5,916.3
Operating income:			
Electronics Marketing	$ 391.0	$ 256.1	$ 297.3
Computer Marketing	38.1	43.0	61.7
Avnet Applied Computing	20.5	—	—
Video Communications	—	—	3.0
Corporate and special charges	(115.6)	(125.9)	(90.8)
	$ 334.0	$ 173.2	$ 271.2
Assets:			
Electronics Marketing	$ 3,108.0	$ 1,662.6	$ 1,695.9
Computer Marketing	655.2	489.1	423.3
Avnet Applied Computing	226.8	—	—
Corporate	1,254.4	833.0	614.5
	$ 5,244.4	$ 2,984.7	$ 2,733.7
Capital expenditures:			
Electronics Marketing	$ 40.3	$ 50.3	$ 19.8
Computer Marketing	12.2	7.7	7.1
Avnet Applied Computing	1.7	—	—
Corporate	32.7	15.0	11.5
	$ 86.9	$ 73.0	$ 38.4
Depreciation & amortization expense:			
Electronics Marketing	$ 27.1	$ 17.5	$ 17.8
Computer Marketing	7.2	6.7	5.6
Avnet Applied Computing	.1	—	—
Corporate	41.2	28.1	27.1
	$ 75.6	$ 52.3	$ 50.5
Sales, by geographic area, are as follows:			
Americas	$ 6,678.1	$ 4,888.5	$ 4,748.0
EMEA (Europe, Middle East and Africa)	2,055.9	1,241.2	1,021.5
Asia/Pacific	438.2	220.3	146.8
	$ 9,172.2	$ 6,350.0	$ 5,916.3

13. Segment information (continued):

(Millions)	Years Ended June 30, 2000	July 2, 1999	June 26, 1998
Assets, by geographic area, are as follows:			
Americas	$ 3,796.9	$ 2,316.3	$ 2,121.8
EMEA (Europe, Middle East and Africa)	1,165.8	535.5	525.0
Asia/Pacific	281.7	132.9	86.9
	$ 5,244.4	$ 2,984.7	$ 2,733.7

14. Non-recurring items:

Reorganization and integration charges:

During the third quarter of fiscal 2000, the Company recorded $14,823,000 pre-tax and $8,877,000 after-tax ($0.10 per share on a diluted basis) of incremental special charges associated with: (a) the integration of Electronics B.V. (SEI) and SEI Macro Group into Electronics Marketing ("EM") EMEA ($10,120,000 pre-tax); (b) the integration of JBA Computer Solutions into Computer Marketing, North America ($3,146,000 pre-tax); and (c) costs related to the consolidation of EM's European warehousing operations ($1,557,000 pre-tax). Approximately $13,327,000 of the pre-tax charge was included in operating expenses and $1,496,000 was included in cost of sales, which represented a non-cash write-down. These charges include severance, inventory reserves related to termination of product lines, write-downs associated with the disposal of fixed assets and other items. Of the special charges of $14,823,000 pre-tax, approximately $7,237,000 did not require an outflow of cash and $7,586,000 required the use of cash, $2,544,000 of which had been expended at June 30, 2000.

During the second quarter of fiscal 2000, the Company recorded $28,030,000 pre-tax and $17,573,000 after-tax ($0.21 per share on a diluted basis) of incremental special charges associated with: (a) the integration of Marshall Industries into the Company ($18,413,000 pre-tax); (b) the reorganization of the Company's Electronics Marketing Asian operations ($5,409,000 pre-tax); (c) costs related to the consolidation of the Company's Electronics Marketing European warehousing operations ($1,509,000 pre-tax); and (d) costs incurred in connection with certain litigation brought by the Company ($2,699,000 pre-tax). Approximately $17,739,000 of the pre-tax charge was included in operating expenses and $10,291,000 was included in the cost of sales. The charges related to the integration of Marshall Industries and the reorganization of the Asian operations are comprised of severance, inventory reserves required related to supplier terminations, real property lease terminations, employee and facility relocation costs, special incentive payments and other items. Of the special charges of $28,030,000 pre-tax, approximately $11,143,000 did not require an outflow of cash and $16,887,000 required the use of cash, $13,656,000 of which had been expended at June 30, 2000.

During the first quarter of fiscal 2000, the Company recorded $6,111,000 pre-tax and $3,976,000 after-tax ($0.06 per share on a diluted basis) of incremental special charges associated with the reorganization of the Electronics Marketing European operations consisting primarily of costs related to the consolidation of warehousing operations. The entire $6,111,000 is included in operating expenses, most of which required an outflow of cash. These charges included severance, adjustments of the carrying value of fixed assets, real property lease terminations and other items. Substantially all of the cash associated with this item had been expended at June 30, 2000.

The total amount of special charges recorded in fiscal 2000 amounted to $48,964,000 pre-tax ($37,177,000 included in operating expenses and $11,787,000 included in cost of sales), $30,426,000 after-tax and $0.37 per share on a diluted basis.

During the first quarter of 1999, the Company recorded $26,519,000 pre-tax and $15,740,000 after-tax ($0.21 per share on a diluted basis) of incremental special charges associated principally with the reorganization of its EMEMEA (Europe, Middle East and Africa) operations.

14. Non-recurring items (continued):

These charges include severance, real property lease termination costs, inventory reserves required related to supplier terminations and other items. Approximately $18,613,000 of the pre-tax charge, which required an outflow of cash, is included in operating expenses and $7,906,000, which represented a non-cash write-down, is included in cost of sales. Substantially all of the cash associated with this item had been expended at July 2, 1999.

During the fourth quarter of 1998, the Company recorded $35,400,000 pre-tax and $21,200,000 after-tax ($0.27 per share on a diluted basis) of incremental special charges associated principally with the reorganization of its EM Americas operation. Approximately $25,700,000 of the pre-tax charge is included in operating expenses and $9,700,000 is included in cost of sales. These charges include severance, real property lease termination costs, inventory reserves required related to supplier terminations, the write-down of goodwill and other items. The write-down of goodwill relates to a small underperforming operating unit. Of the special charges of $35,400,000 pre-tax, approximately $17,100,000 did not require an outflow of cash and $18,300,000 required the use of cash, all of which had been expended at July 2, 1999.

Dispositions and other:

In the fourth quarter of 1999, the Company recorded a gain on the sale of its Allied Electronics business in the amount of $252,279,000 pre-tax, offset somewhat by charges taken in connection with the intended disposition of the Avnet Setron catalog operation in Germany amounting to $42,732,000. Approximately $37,492,000 of the pre-tax charge, consisting principally of the write-off of goodwill, is included in operating expenses and $5,240,000 is included in cost of sales, while the pre-tax gain on Allied Electronics is shown separately on the income statement. The net effect of these items is to increase income before taxes, net income and diluted earnings per share by approximately $209,547,000, $79,709,000 and $1.13 per share for the fourth quarter, respectively.

In the second quarter of 1998, the Company recorded a gain on the sale of Channel Master amounting to $33,795,000 pre-tax, offset somewhat in operating expenses by costs relating to the divestiture of Avnet Industrial, the closure of the Company's corporate headquarters in Great Neck, New York, and the anticipated loss on the sale of Company-owned real estate, amounting to $13,300,000 in the aggregate. The effect of these items is to increase income before income taxes, net income and diluted earnings per share by approximately $20,495,000, $8,700,000 and $0.11 per share for the second quarter, respectively.

In total, the non-recurring items recorded in 1999 as discussed above positively impacted income before taxes, net income and diluted earnings per share by $183,028,000, $63,969,000 and $0.89 per share, respectively. The net positive impact of the non-recurring items on diluted earnings per share for 1999 ($0.89) was $0.03 less than the sum of the applicable amounts for the fourth quarter and first quarter ($1.13 per share less $0.21 per share) due to the effect of the Company's stock repurchase program on the weighted average number of shares outstanding and the amount of the non-recurring items.

In total, the non-recurring items recorded in 1998 as discussed above negatively impacted income before income taxes, net income and diluted earnings per share by $14,905,000, $12,500,000 and $0.16 per share, respectively.

AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Summary of quarterly results (unaudited):

(Millions, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2000					
Sales	$ 1,654.3	$ 2,102.8	$ 2,686.2	$ 2,728.9	$ 9,172.2
Gross Profit	230.8 (a)	282.7 (b)	380.9 (c)	394.1	1,288.5 (a)(b)(c)
Pre-tax income	39.4 (a)	28.4 (b)	71.9 (c)	114.8	254.5 (a)(b)(c)
Net income	22.1 (a)	15.1 (b)	41.3 (c)	66.6	145.1 (a)(b)(c)
Diluted earnings per share	0.31 (a)	0.18 (b)	0.46 (c)	0.74	1.75 (a)(b)(c)(f)
1999					
Sales	$ 1,581.6	$ 1,526.9	$ 1,599.2	$ 1,642.3	$ 6,350.0
Gross Profit	231.9 (d)	228.8	243.8	244.1 (e)	948.6 (d)(e)
Pre-tax income	28.7 (d)	45.9	45.1	255.6 (e)	375.3 (d)(e)
Net income	15.7 (d)	26.5	25.7	106.6 (e)	174.5 (d)(e)
Diluted earnings per share	0.21 (d)	0.37	0.36	1.51 (e)	2.43 (d)(e)(f)

(a) Includes the impact of incremental special charges associated with the reorganization of the Electronic Marketing European operations amounting to $6.1 million pre-tax, $4.0 million after-tax and $0.06 per share on a diluted basis.

(b) Includes the impact of incremental special charges associated with the integration of Marshal Industries, the reorganization of the Company's Asian operations, costs related to the consolidation of the Company's Electronics Marketing European warehousing operations and costs incurred in connection with its lawsuit against Wyle Laboratories, Inc. amounting to $28.0 million pre-tax, $17.6 million after-tax and $0.21 per share on a diluted basis.

(c) Includes the impact of incremental special charges associated with the integration of Eurotronics B.V. (SEI), the integration of the SEI Macro Group, the integration of JBA Computer Solutions and costs related to the consolidation of EM's European warehousing operations amounting to $14.8 million pre-tax, $8.9 million after-tax and $0.10 per share on a diluted basis.

(d) Includes the impact of incremental special charges associated with the reorganization of the Company's Electronics Marketing Group amounting to $26.5 million pre-tax, $15.7 million after-tax and $0.21 per share on a diluted basis.

(e) Includes the net gain on exiting the printed catalog business consisting of the July 2, 1999 sale of Allied Electronics, offset somewhat by charges recorded in connection with the disposition of the Avnet Setron catalog operations in Germany. The net positive effect on fourth quarter 1999 pre-tax income, net income and diluted earnings per share was $209.5 million, $79.7million and $1.13, respectively.

(f) Diluted earnings per share for fiscal 2000 is greater by $0.06 and in fiscal 1999 is less by $0.02 than the sum of the applicable amounts for each of the quarters due to the impact on the weighted average number of shares outstanding of the issuance of shares in connection with the acquisition of Marshall Industries and Electronics B.V. (SEI) in 2000 and the effect of the stock repurchase program in 1999.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Avnet, Inc.:

We have audited the accompanying consolidated balance sheets of Avnet, Inc. (a New York corporation) and Subsidiaries as of June 30, 2000 and July 2, 1999 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Avnet, Inc. and Subsidiaries as of June 30, 2000 and July 2, 1999, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2000 in conformity with accounting principles generally accepted in the United States.

s/ARTHUR ANDERSEN LLP

Phoenix, Arizona
August 7, 2000 (except with respect to the
stock split discussed in Note 1, as to which
the date is September 18, 2000)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Avnet, Inc. and Subsidiaries have been prepared under the direction of management in conformity with generally accepted accounting principles and include certain amounts based upon our best estimates and use of judgement. The financial information contained in this Report has also been prepared by management which is responsible for its accuracy and consistency with the financial statements.

To meet management's responsibility for financial reporting, we have established a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting, and to ensure that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal control, and the cost of maintaining such systems should not exceed the benefits to be received. The Company has a professional staff of internal auditors whose responsibility, among other things, is to review these systems and controls, and monitor compliance therewith. The Company's independent accountants are engaged to express an opinion on the year-end financial statements based on an audit in accordance with generally accepted auditing standards, including a review of the internal control structure and test of accounting procedures and records.

The Audit Committee of the Board of Directors is comprised solely of outside directors, and is charged with reviewing the status of the annual audit prior to its completion and determining the nature and extent of the issues, if any, warranting consideration by the full Board, reviewing disagreements, if any, that have not been resolved to the satisfaction of both management and the independent accountants, evaluating the adequacy and effectiveness of Avnet's internal controls and reporting to the full Board with respect thereto. The Audit Committee meets periodically with the independent accountants, with our internal auditors, and with management to review accounting, auditing, internal control structure and financial reporting matters.

Roy Vallee
Chairman and Chief Executive Officer

Raymond Sadowski
Sr. Vice President and CFO

SHAREHOLDERS' INFORMATION

Diversity Statement:

Avnet is committed to building a high-performance work environment in which individual differences are respected and valued, opening the way for more participation and greater career success for all employees.

Avnet is also an equal opportunity employer providing affirmative action programs for the full and effective utilization of qualified persons regardless of race, religion, color, age, gender, sexual orientation or national origin. We additionally support programs for the employment and advancement of qualified disabled veterans and Vietnam-era veterans.

Safe Harbor Statement:

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: Any statements made in this Report which are not historical facts are forward-looking statements that involve risks and uncertainties. Among the factors which could cause actual results to differ materially are (i) major changes in business conditions and the economy in general, (ii) risks associated with foreign operations, such as currency fluctuations, (iii) allocations of products by suppliers, and (iv) changes in market demand and pricing pressure.

Form 10-K:

A copy of the Company's annual report on Form 10-K, filed in September 2000 with the Securities and Exchange Commission, may be obtained by writing to Lillie Scarna, Investor Relations Coordinator, at the executive offices address.

Auditors:

Arthur Andersen LLP, Phoenix, Arizona

Transfer Agent:

Wells Fargo Bank Minnesota, N.A.
Shareowner Services
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Hearing impaired shareholders with access to telecommunications device (TDD) can communicate directly with Wells Fargo Bank. The TDD number is: (651) 450-4144.

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Internet:

Avnet's annual report, Quarterly Fact Sheet, upcoming analyst meetings/teleconferences and other investor relations information are also available on the World Wide Web at: http://www.avnet.com

Annual Meeting:

The annual meeting of shareholders will be held at the Marriott New York Financial Center, 85 West Street, New York, NY, on November 20, 2000 at 9:30 AM (Eastern Standard Time). A formal notice of the meeting, together with a proxy statement, will be mailed to each shareholder.

*Dividends Declared:

Cash Dividends on the Company's common stock were 7.5 cents per share during each quarter of fiscal years 2000 and 1999.

*Price Range of Common Stock:

The Company's common stock is listed on the New York Stock Exchange (trading symbol: AVT). The high and low prices during each quarter of fiscal years 2000 and 1999 were as follows:

	2000		1999	
QTR.	HIGH	LOW	HIGH	LOW
Fourth	$ 40.56	$ 28.00	$ 25.50	$ 17.00
Third	36.75	25.00	30.47	17.81
Second	30.25	18.66	30.31	17.47
First	26.22	20.53	29.25	17.63

* The market prices and dividends per share indicated above have been adjusted to reflect a two-for-one stock split distributed on September 28, 2000 to shareholders of record on September 18, 2000. See Note 1 to consolidated financial statements.