

Registered No: 2582534

Arrow Electronics (UK) Limited

Report and Financial Statements

31 December 2015

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COMPANIES HOUSE

Directors

P J Reilly (resigned 1st Jun 2016)
J A Ward (resigned 10th Mar 2016)
G P Tarpinian
D Hassell (appointed 10th Mar 2016)
C Stansbury (appointed 23rd Jun 2016)

Secretary

F Kjellgren (resigned 15th Jul 2015)
P Ewing (appointed 15th Jul 2015)

Auditors

Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire
LU1 3LU

Bankers

HSBC Bank Plc
Poultry
London
EC2P 2BX

Solicitors

Herbert Smith
Exchange House
Primrose Street
London
EC2A 2HS

Registered office

London Road Campus
London Road
Harlow
Essex
CM17 9NA

Strategic Report

The directors present their strategic report for the year ended 31 December 2015.

Results and dividends

The net profit for the year after taxation before other comprehensive income amounted to £2,557,000 (2014: profit of £7,151,000 restated under FRS101) after exceptional costs of £75,000 (2014: exceptional income of £2,161,000). The directors do not recommend the payment of any dividends.

During 2014, a waiver of intercompany loans resulted in a gain of £2,195,000. This is shown as an exceptional item in note 3 to the Financial Statements.

Review of the business

Turnover increased in 2015 from 2014 by 1.1%, while the gross margin percentage decreased in 2015 from 13.0% to 10.6%. Distribution and administration costs increased slightly by 1.4% and remained level as a percentage of sales at 8.8% (before reorganisation costs and intercompany loan waivers). Operating profit compared to sales (excluding gains from waiver of intercompany loans) decreased in 2015 from 4.3% to 1.8%.

Profit and Loss Variances

	2015 £000	2014 £000	Percentage change %
Sales	146,457	144,811	1.1
Gross profit	15,579	18,863	(17.4)
Operating profit (excluding loan waiver gains)	2,654	6,158	(56.9)
Net profit on ordinary activities after tax (excluding loan waiver gains)	2,557	4,956	(48.4)

The Company transitioned from UK GAAP to Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and has taken advantage of the disclosure exemptions allowed under the standard. The Company's parent undertaking, Arrow Electronics UK Holding Ltd, was notified of and did not object to the use of FRS101. Transition tables showing material adjustments are disclosed in Note 26 of these accounts.

Future developments

Though there is still some uncertainty, the outlook for 2016 is for a reasonable level of growth in the market and expectations are that the business will see similar growth.

Risks and uncertainties

Competitive risks – In the UK there are a range of companies in direct competition. Whilst the company is not immune to the threats from competitors, it is better placed than many to both resist these threats and to win business from existing and new customers. A number of factors give the company a competitive advantage, including the available franchises, service and support, competitive pricing and industry expertise.

Legislative risks – there are a number of legislative risks including the following: Pollution and chemical legislation on product content such as RoHS, country imposed restrictions for sales to certain industries, border controls enforcing delays to transactions and trade controls on product preventing or limiting sales. None of these risks are considered to have a potential major impact on the company and they are managed in the normal course of business.

Financial instrument risks - The company has an established risk and financial management framework where the primary objective is to protect the company from events that hinder the achievement of the company's performance objectives. The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and to monitor the management of risk on an on-going basis.

Use of derivatives – The company uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates. This is done through a series of globally managed ongoing contracts.

Exposure to price, credit, liquidity and cashflow risk

Price risk arises on financial instruments because of changes in, for example, commodity prices or equity prices. The company does not hold any equity investments.

Strategic Report (continued)

Exposure to price, credit, liquidity and cashflow risk (continued)

Credit risk is the risk that one party to a financial instrument will cause a financial loss for another party, by failing to discharge an obligation. Company policies are aimed at minimising such losses, and require that open credit and deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Details of the company's debtors are shown in note 15 to the financial statements.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company aims to mitigate liquidity risk by managing cash generation by its operating activities, managing available cash appropriately and applying cash targets where relevant.

Cashflow risk is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, such as future interest payments on a variable rate debt. The company manages this risk by the use of the activities listed above, including derivatives and liquidity risk management which are coordinated by other group companies.

On behalf of the board



D Hassell
Director

21-SEPT-16

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2015.

Principal activity

The principal activity of the company during the year continued to be the distribution of electronic and electrical, equipment and accessories to industry.

Directors

The directors who served the company during the year were as follows:

P J Reilly
J A Ward
G P Tarpinian

None of the directors of the company had any disclosable interest in the shares of the company or any other UK group company at any time during the year.

Disabled employees

It is the company's policy that disabled persons are treated fairly and consistently in terms of recruitment, training, career development and promotion and that their employment opportunities should be based on a realistic assessment of their aptitudes and abilities.

Wherever possible the company will continue the employment of persons who become disabled during the course of their employment with the company through retraining, acquisition of special aids and equipment or the provision of suitable alternative employment.

Employee involvement

The company believes that to achieve excellent customer service its employees should be well informed about company plans and performance and have the opportunity to discuss their performance regularly with their manager.

Therefore the company is committed to providing all its employees with information on a regular basis and to encouraging their participation in schemes where they will benefit from the company's progress and profitability. In addition, it is intended that all employees discuss their individual performance with their managers at least on an annual basis with the objective of identifying how their performance can be improved.

Donations

During the year, the company made charitable donations totalling £1,075 (2014: £1,260).

Creditor payment policy

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2015 the company had an average of 29 days (2014: 29 days) purchases outstanding in trade creditors.

Directors' Report (continued)

Going Concern

The activities of the company, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposure to price, credit, liquidity and cashflow risk are described in the review of the business on pages 2 to 3.

The company is a subsidiary of a large global corporation, and both individually and as part of the global group it has significant long term trading relationships with a number of customers and suppliers across different geographic areas and technologies. The company has significant cash and financial resources both as a company within a UK group of companies, and as part of a global corporation. As a consequence, the directors believe that the company is well placed to manage its business risk successfully.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Directors' statement as to disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is unaware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board



P Ewing (appointed 15th Jul 2015)
Secretary

21-SEPT-16

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Arrow Electronics (UK) Limited

We have audited the financial statements of Arrow Electronics (UK) Limited for the year ended 31 December 2015 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report (continued)

to the members of Arrow Electronics (UK) Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Juliet Thomas (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Luton

22/9/16

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2015

	Notes	2015 £000	Restated 2014 £000
Turnover	2	146,457	144,811
Cost of sales		130,878	125,948
Gross profit		15,579	18,863
Distribution costs		8,571	7,787
Administrative expenses excluding exceptional items		4,279	4,884
Exceptional items	3	75	(2,161)
Total administrative expenses		4,354	2,723
Operating profit	4	2,654	8,353
Interest receivable and similar income	8	184	75
Interest payable and similar charges	9	(77)	(74)
Profit on ordinary activities before taxation		2,761	8,354
Tax on profit on ordinary activities	11	(204)	(1,203)
Profit for the financial year	23	2,557	7,151

Balance sheet
at 31 December 2015

	Notes	31 Dec 2015 £000	Restated 31 Dec 2014 £000	Restated 31 Dec 2013 £000
Fixed assets				
Goodwill	13	1,417	1,417	-
Tangible assets	14	898	1,781	1,753
		<u>2,315</u>	<u>3,198</u>	<u>1,753</u>
Current assets				
Debtors : amounts falling due within one year	15	31,949	93,846	94,417
Cash at bank		46,581	27,116	20,786
		<u>78,530</u>	<u>120,962</u>	<u>115,203</u>
Creditors: amounts falling due within one year				
Trade and other payables	16	21,194	29,459	31,303
Loans and borrowings	16	9,438	10,573	8,260
		<u>30,632</u>	<u>40,032</u>	<u>39,563</u>
Net current assets		<u>47,898</u>	<u>80,930</u>	<u>75,640</u>
Total assets less current liabilities		<u>50,213</u>	<u>84,128</u>	<u>77,393</u>
Creditors: amounts falling due after more than one year	17	-	36,586	36,586
Provisions for liabilities and charges	19	181	311	525
		<u>50,032</u>	<u>47,231</u>	<u>40,282</u>
Capital and reserves				
Called up share capital	22	5,500	5,500	5,500
Share premium account	23	16,500	16,500	16,500
Profit and loss account	23	24,394	21,837	14,686
Equity reserve	23	3,638	3,589	3,493
Derivative financial instruments	24	-	(195)	103
Equity shareholders' funds	23	<u>50,032</u>	<u>47,231</u>	<u>40,282</u>

On behalf of the board

D Hassell
Director

21-SEPT-16

Statement of changes in equity

at 31 December 2015

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Equity reserve £000	Cash flow hedge reserve £000	Total £000
At 1 January 2014	5,500	16,500	14,686	3,493	103	40,282
Profit for the financial year	-	-	7,151	-	-	7,151
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	7,151	-	-	7,151
Share-based payments	-	-	-	96	-	96
Movement on derivatives	-	-	-	-	(298)	(298)
At 31 December 2014	5,500	16,500	21,837	3,589	(195)	47,231
Profit for the financial year	-	-	2,557	-	-	2,557
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	2,557	-	-	2,557
Share-based payments	-	-	-	49	-	49
Movement on derivatives	-	-	-	-	195	195
At 31 December 2015	5,500	16,500	24,394	3,638	-	50,032

Notes to the financial statements

at 31 December 2015

1. Accounting policies

Arrow Electronics (UK) Limited (the "Company") is a limited liability company incorporated in England. The registered office address is:

London Road Campus
London Road
Harlow
Essex
CM17 9NA

The financial statements of Arrow Electronics (UK) Limited for the year ended 31 December 2015 were authorised for issue by the board of directors on 16 September 2016 and the balance sheet was signed on the board's behalf by D Hassell.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The financial statements are prepared under the historical cost convention modified by a true and fair view override in respect of the non-amortisation of goodwill.

The Company has transitioned to FRS 101 from previously extant UK Generally Accepted Accounting Practice for all periods presented. Transition tables showing all material adjustments are disclosed in note 26. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2015.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share Based Payment because the share based payment arrangement concerns the instruments of another group entity
- b) the requirements of IFRS 7 Financial Instruments: Disclosures
- c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - (iii) paragraph 118(e) of IAS 38 Intangible Assets
- e) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements
- f) the requirements of IAS 7 Statement of Cash Flows;
- g) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- h) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- i) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- j) the requirements of IAS 27 Consolidated and Separate Financial Statements;
- k) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets

The accounting reference date of the company is 31 December. The financial statements are prepared in pounds sterling and are rounded to the nearest thousand pounds (£000).

Consolidated accounts

The directors have taken advantage of the exemption from preparing group accounts. This exemption is available to the company under section 401 of the Companies Act 2006 and under IAS 27, since a parent company prepares consolidated accounts which, the directors consider, are drawn up on an equivalent basis and are publicly available. Accordingly the accounts presented herein have been prepared on a company-only basis.

Cash flow statement

The directors have taken advantage of the exemption from preparing a cash flow statement. This exemption is available to the company under IAS 27, since the ultimate parent company, Arrow Electronics Inc, prepares a consolidated cash flow statement which, the directors consider, is drawn up on an equivalent basis.

Notes to the financial statements

at 31 December 2015

1. Accounting policies (continued)

Related party transactions

The company is a wholly owned subsidiary of Arrow Electronics UK Holding Limited, which is the domestic ultimate parent company of Arrow Electronics (UK) Limited. The ultimate parent company is Arrow Electronics Inc., which is incorporated in the USA and the consolidated accounts of which are publicly available.

Accordingly, the company has taken advantage of the exemption in IAS 24 from disclosing transactions with related parties in the Arrow Electronics Inc group.

Intangible assets

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Fixed assets

All fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Freehold property	- 20 years
Short leasehold improvements	- the shorter of 20 years or the life of the lease
Equipment and motor vehicles	- 2 to 15 years

The carrying values of tangible fixed assets are reviewed for impairment in periods when events or changes in circumstances indicate the carrying value may not be recoverable. Useful lives and residual values are reviewed annually and where adjustments are required, these are made prospectively.

Trade and other debtors

Trade debtors are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is both probable that an outflow of economic benefits will be required to settle the obligation and that a reliable estimate can be made of the amount of the obligation. Where material, provisions are discounted using an appropriate rate.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Notes to the financial statements

at 31 December 2015

1. Accounting policies (continued)

Deferred tax is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that the directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding value added tax and other sales taxes.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Dividend income is recognised when the company's right to receive payment is established.

Exceptional items

The company presents as exceptional items those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

Share based payments

Arrow Electronics Inc maintains the group 2004 Omnibus Incentive Plan, which replaced all prior employee stock plans. The plan permits the grant of cash-based awards, non qualified stock options, incentive stock options, stock appreciation rights, restricted stock units, performance shares, performance units, covered employee annual incentive awards and other stock-based awards. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by means of Black-Scholes option pricing model. No expense is recognised for awards that do not ultimately vest.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired. The movement in cumulative expenses since the previous balance sheet date is recognised in the profit and loss account with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of modification. No reduction is recognised if this difference is negative.

Foreign currencies

The financial statements are prepared in sterling which is the functional currency of the company.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction, or at the contracted rate if the transaction is covered by a forward currency contract.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward currency rate.

All differences are taken to the profit and loss account.

Notes to the financial statements

at 31 December 2015

1. Accounting policies (continued)

Derivative financial instruments and hedging

The company uses foreign currency exchange forward contracts to hedge its risks associated with foreign currency. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is formally designated and documented at its inception. This documentation identifies the risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting period for which they were designated. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income, and the ineffective portion is recognised in the profit and loss account.

Operating lease agreements

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pension costs

The company operates a group personal pension plan to which the company contributes. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the plan.

2. Turnover

Turnover represents sales invoiced to customers, net of discounts, excluding value added tax. Turnover is attributable to one continuing activity, the distribution of electronic and electrical equipment and accessories to industry.

Turnover is predominantly attributable to goods sold within the UK, with minimal goods being sold within Ireland, mainland Europe and the rest of the World.

3. Exceptional items

	2015 £000	2014 £000
Recognised in arriving at operating profit:		
Intercompany Loan Waivers	-	(2,195)
Reorganisation Costs	75	34

2015

Reorganisation costs comprise acquisition costs associated with the acquisition of business from Ultimate Renaissance in 2014, and incremental costs associated with sites closed prior to 2014.

2014

Gains have arisen as a result of loan waivers from the fellow enterprise Nu Horizons Electronics Corp and from the subsidiary Nu Horizons Electronics Ltd (now dissolved).

Reorganisation costs comprise acquisition costs associated with the acquisition of business from Ultimate Renaissance in 2014, and incremental costs associated with sites closed prior to 2014.

Notes to the financial statements

at 31 December 2015

4. Operating profit

This is stated after charging:

	Notes	2015 £000	2014 £000
Auditors' remuneration – audit services		41	31
Loss on foreign exchange (included in cost of sales)		2,750	242
Loss / (gain) on foreign exchange (included in administrative expenses)		40	(40)
Depreciation of owned fixed assets	14	1,316	356
Operating lease rentals		506	473
- land and buildings		218	200
- plant and machinery		49	96
Share based payments	7		

5. Staff costs

	2015 £000	Restated 2014 £000
Wages and salaries	17,594	15,668
Social security costs	2,352	2,146
Other pension costs (note 18)	851	734
	<u>20,797</u>	<u>18,548</u>

The monthly average number of employees in the UK during the year was as follows:

	2015 No.	2014 No.
Directors	1	1
Staff	392	364
	<u>393</u>	<u>365</u>

6. Directors' remuneration

	2015 £000	2014 £000
Remuneration	<u>202</u>	<u>212</u>
Value of company pension contributions to pension plans	<u>-</u>	<u>-</u>
	2015 No.	2014 No.
Number of directors who exercised share options	1	1
Number of directors who were members of pension plans	-	-

Other directors' remuneration are borne by fellow Arrow Electronics Inc. group companies as these directors are also directors or officers of a number of companies within the group. These directors' services to the company do not occupy a significant amount of their time. As such, these directors do not consider that they have received any remuneration for their incidental services to the company.

Notes to the financial statements

at 31 December 2015

7. Share based payments

2004 Omnibus Incentive Plan Awards.

Arrow Electronics Inc maintains the group 2004 Omnibus Incentive Plan, which replaced all prior employee stock plans. The plan permits the grant of cash-based awards, non qualified stock options, incentive stock options, stock appreciation rights, restricted stock units, performance shares, performance units, covered employee annual incentive awards and other stock-based awards. The exercise price for options cannot be less than the fair market value of Arrow's common stock on the date of grant.

All costs associated with employees of the company that receive grants under this award scheme are wholly allocated to other group companies. As such, it is considered that there are no share option awards to employees of the company whose costs are borne by the company.

Performance Share Awards

The ultimate parent company has granted a specific number of performance shares to certain key members of management. The employees are able to earn between 0% and 200% of these shares based on the company's financial performance over a 3 year cycle beginning in the January of the year of the award. Performance shares are awarded at the conclusion of the performance period.

The following table illustrates the number and weighted average fair value at the measurement date (WAFV) of, and movement in, the performance share awards during the year.

The table has been restated to only show performance share awards to employees of the company whose costs are also borne by the company. Employees of the company whose costs are wholly allocated to other group companies are excluded from this table as it is considered that the company will not bear the cost of these awards.

	<i>2015</i>	<i>2015</i>	<i>2014</i>	<i>2014</i>
	<i>No</i>	<i>WAFV</i>	<i>No</i>	<i>WAFV</i>
Outstanding as at 1 January	2,099	\$43.63	3,641	\$39.58
Granted during the year	342	\$62.13	396	\$56.71
Exercised during the year	(1,167)	\$40.15	(1,938)	\$38.69
Forfeited during the year	-	-	-	-
Outstanding at 31 December	1,274	\$51.79	2,099	\$43.63

The directors consider that the fair value of performance shares equates to the market price of shares in the ultimate parent company on the date of the award.

Restricted Share Awards

During the year, the ultimate parent company has granted a specific number of restricted stock units to certain key members of management to incentivise them to remain with the Group. These units vest over a four year period in four equal tranches on the anniversary of the award date. On vesting, each unit is settled by delivery of one share of Common Stock.

The following table illustrates the number and weighted average fair value at the measurement date (WAFV) of, and movement in, the performance share awards during the year.

Notes to the financial statements

at 31 December 2015

7. Share based payments (continued)

The table has been restated to only show restricted share awards to employees of the company whose costs are also borne by the company. Employees of the company whose costs are wholly allocated to other group companies are excluded from this table as it is considered that the company will not bear the cost of these awards.

	2015 No	2015 WAFV	2014 No	2014 WAFV
Outstanding as at 1 January	3,712	\$41.42	5,285	\$35.40
Granted during the year	342	\$62.13	397	\$56.71
Exercised during the year	(2,913)	\$39.96	(1,970)	\$28.34
Forfeited during the year	-	-	-	-
Outstanding at 31 December	1,141	\$51.38	3,712	\$41.42

The directors consider that the fair value of restricted stock units equates to the market price of shares in the ultimate parent company on the date of the award.

The expense as calculated in accordance with IFRS2 is set out in note 4.

The fair value of share options granted were determined using the Black-Scholes option pricing model. The following principal assumptions were used in the valuation:

	2015	2014
Share price at date of grant	\$62.13	\$56.71
Risk free interest rate	1.7%	1.6%
Expected life (in years)	5.23	5.29
Expected volatility	30.82%	37.24%
Expected dividend yield	-	-

Volatility is measured using historical daily price changes of the company's common stock over the expected term of the option.

The expected life represents the weighted average period the option is expected to be outstanding and is based primarily on the historical exercise behaviour of employees.

The risk-free interest rate is based on the U.S. Treasury zero-coupon yield with a maturity that approximates the expected term of the option.

8. Interest receivable and similar items

	2015 £000	2014 £000
Bank interest receivable	184	75
Other interest receivable	-	-
	<u>184</u>	<u>75</u>

Notes to the financial statements

at 31 December 2015

9. Interest payable and similar charges

	2015 £000	2014 £000
Bank interest payable	62	48
Other interest payable	15	26
	<u>77</u>	<u>74</u>

10. Dividend Income

During the year there was no dividend income (2014: no dividend income).

11. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2015 £000	Restated 2014 £000
<i>Current Tax:</i>		
UK corporation tax	316	1,043
Total current tax (note 11(b))	<u>316</u>	<u>1,043</u>
<i>Deferred Tax:</i>		
Origination and reversal of timing differences:		
Current Period	(112)	177
Rate change	16	(10)
Prior period	(16)	(7)
Tax on profit on ordinary activities	<u>204</u>	<u>1,203</u>

(b) Factors affecting current tax charge

	2015 £000	Restated 2014 £000
Profit on activities before taxation	<u>2,761</u>	<u>8,354</u>
Loss on activities multiplied by the standard rate of corporation tax of 20.25% (2014: 21.5%)	559	1,796
Expenses not deductible for tax purposes	36	36
Income not taxable	(188)	(366)
Accelerated capital allowances	16	27
Group relief	(226)	(184)
Prior year adjustment	7	(106)
Tax on profit on ordinary activities	<u>204</u>	<u>1,203</u>

Notes to the financial statements

at 31 December 2015

11. Tax (continued)

(c) Deferred tax

The deferred tax asset included in the balance sheet is as follows:

	2015 £000	Restated 2014 £000
Included in debtors (note 15)	278	167

Deferred taxation provided in the financial statements is as follows:

	2015 Provided £000	Restated 2014 Provided £000
Depreciation in advance of capital allowances	204	101
Other timing differences	74	66
Deferred tax asset	278	167

Roll forward of deferred tax:

	£000
Balance brought forward at 1 January 2015	167
Current period	111
Prior period	-
Balance carried forward at 31 December 2015	278

(d) Factors affecting current tax charge

The main rate of UK Corporation Tax was reduced from 21% to 20% on 1 April 2015

The Chancellor announced in the 2015 budget that the main rate of UK Corporation Tax is to be reduced to 19% from 1 April 2017 and 18% from 1 April 2020. Finance Act (No. 2) 2015 received Royal Assent on 18 November 2015 with the rates being substantively enacted from 26 October 2015.

As the legislation was substantively enacted by the balance sheet date, the closing deferred tax balances have been calculated at 19%.

The 2016 budget proposed further reductions in the main rate of corporation tax to 17%. These rates have not been used for the purposes of the deferred tax calculations as they were not enacted at the Balance Sheet date. The impact of the reduction to 17% would not materially affect the deferred tax valuation.

The deferred tax asset has been recognised on the basis of the company's previous and current performance.

12. Investments

The company has an investment in the following subsidiaries, which relate to a 100% holding of ordinary shares and are wholly owned and incorporated in England and Wales.

Richardson RFPD UK Ltd	– Distribution of electronic components
Arrow Electronics Ltd	– Dormant, never traded

The cost of these investments is £1 (2014: £1, 2013: £1).

Notes to the financial statements

at 31 December 2015

12. Investments (continued)

The company placed the following subsidiaries through a member's voluntary process that completed in December 2013. The subsidiaries were subsequently dissolved in April 2014.

Nu Horizons Electronics Europe Ltd	– Previously a holding company
Nu Horizons Electronics Ltd	– Previously a distributor of electronic components

The cost of these investments was nil in 2015 (2014: nil, 2013: £1).

13. Intangible assets

	2015 £000	2014 £000
<i>Goodwill held at fair value:</i>		
Cost and carrying amount at 1 January	1,417	-
Additions	-	1,417
Cost and carrying amount at 31 December	<u>1,417</u>	<u>1,417</u>

Goodwill has arisen on acquisition of a business assembling power units. The recoverable amount of this business has been assessed based on a value-in-use calculation using cash flow projections based on management financial results for 2015. A conservative nil growth rate has been assumed for future years, acting as a lower threshold for the calculation, which is less than the long-term average growth rate expected for the type of business. The discount rate applied to cash flow projections is 8.0%.

14. Tangible fixed assets

	Short leasehold improvements £000	Equipment and motor vehicles £000	Total £000
<i>Cost:</i>			
At 1 January 2015	1,835	1,796	3,631
Additions	72	361	433
At 31 December 2015	<u>1,907</u>	<u>2,157</u>	<u>4,064</u>
<i>Depreciation:</i>			
At 1 January 2015	893	957	1,850
Provided during the year	832	484	1,316
At 31 December 2015	<u>1,725</u>	<u>1,441</u>	<u>3,166</u>
<i>Net book value:</i>			
At 31 December 2014	<u>942</u>	<u>839</u>	<u>1,781</u>
At 31 December 2015	<u>182</u>	<u>716</u>	<u>898</u>

In 2015, the company recognised accelerated depreciation of assets associated with its head office location in recognition of an expected site relocation during 2016. The effect of the accelerated depreciation was an additional charge to short leasehold improvements of £695,000, and to equipment and motor vehicles of £177,000.

Notes to the financial statements

at 31 December 2015

15. Debtors

	Notes	2015 £000	2014 £000	2013 £000
Trade debtors		29,241	36,173	34,369
Amounts owed by parent undertakings		1,001	56,042	54,274
Amounts owed by subsidiary undertakings		-	78	3,839
Amounts owed by fellow undertakings		492	233	219
Prepayments and accrued income		570	603	856
Deferred tax (note 11(c))		278	167	294
Other tax receivable		367	503	343
Derivative financial instruments	24	-	47	223
		<u>31,949</u>	<u>93,846</u>	<u>94,417</u>

16. Creditors: amounts falling due within one year

	Notes	2015 £000	2014 £000	2013 £000
Trade creditors		298	578	675
Other creditors		-	4	-
Amounts owed to parent undertakings		1,156	731	3,036
Amounts owed to subsidiary undertakings		-	12,018	11,997
Amounts owed to fellow undertakings		12,989	8,081	9,574
Other taxation and social security		3,524	4,759	3,283
Accruals and deferred income		3,116	3,046	2,615
Derivative financial instruments	24	111	242	123
Trade and other payables		<u>21,194</u>	<u>29,459</u>	<u>31,303</u>
Bank overdrafts		9,438	10,573	8,260
Loans and borrowings		<u>9,438</u>	<u>10,573</u>	<u>8,260</u>

17. Creditors: amounts falling due after more than one year

	2015 £000	2014 £000	2013 £000
Amounts owed to parent undertakings	-	36,586	36,586

18. Pensions

The company operates a Group Personal Pension Plan along with a Salary Sacrifice Scheme. The pension cost charge represents contributions payable by the company to the employees' individual policies and amounted to £851,000 (2014: £734,000).

The unpaid contributions outstanding at the year end, included in 'Accruals and deferred income' (note 16) are £129,000 (2014: £113,000).

Notes to the financial statements

at 31 December 2015

19. Provisions for liabilities and charges

	2015 £000
At 1 January (restated)	311
Arising during the year	8
Utilised in the year	(138)
At 31 December	<u>181</u>

At 31 December 2015 the provision represents onerous lease costs for a previously restructured property that is now part sublet. This restructuring provision is expected to be fully utilised during 2016.

20. Commitments under operating leases

At 31 December 2015 the company had minimum lease commitments under non-cancellable operating leases as set out below:

	2015		2014	
	<i>Land and buildings</i> £000	<i>Other</i> £000	<i>Land and buildings</i> £000	<i>Other</i> £000
<i>Commitments due:</i>				
Within one year	943	354	683	339
In two to five years	3,698	1,416	1,435	1,356
In over five years	5,011	-	679	-
At 31 December 2015	<u>9,652</u>	<u>1,770</u>	<u>2,797</u>	<u>1,695</u>

21. Related party transactions

The company has taken advantage of the exemption under paragraph 8(k) of FRS 101 by not disclosing transactions with entities of the group qualifying as related parties. There are no other related party transactions requiring disclosure.

22. Share capital

	2015 £000		Authorised 2014 £000	
Ordinary shares of £1 each		5,500		5,500
	<i>Allotted, called up and fully paid</i>			
	No.	2015 £000	No.	2014 £000
Ordinary shares of £1 each	5,500,002	<u>5,500</u>	5,500,002	<u>5,500</u>

Notes to the financial statements

at 31 December 2015

23. Reconciliation of shareholders' funds and movement on reserves

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Equity reserve £000	Cash flow hedge reserve £000	Total £000
At 1 January 2014	5,500	16,500	14,686	3,493	103	40,282
Profit for the financial year	-	-	7,151	-	-	7,151
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	7,151	-	-	7,151
Share-based payments	-	-	-	96	-	96
Movement on derivatives	-	-	-	-	(298)	(298)
At 31 December 2014	5,500	16,500	21,837	3,589	(195)	47,231
Profit for the financial year	-	-	2,557	-	-	2,557
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	2,557	-	-	2,557
Share-based payments	-	-	-	49	-	49
Movement on derivatives	-	-	-	-	195	195
At 31 December 2015	5,500	16,500	24,394	3,638	-	50,032

Equity reserve

The equity reserve is used to record the charges for share based payments.

Cash flow hedge reserve

The cash flow hedge reserve is used to record the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be effective. At 31 December 2013 and 31 December 2014, a cash flow hedging programme was in operation and the reserve held in equity represented the effective portion of the hedge. During 2015 the cash flow hedging programme was replaced by a balance sheet hedging programme, which uses forward foreign exchange contracts to eliminate the exposure on the net position of recognized foreign currency assets and liabilities. The company has therefore ceased to adopt hedge accounting, with any changes in the fair value of the forward contract recognised immediately in profit or loss. Consequently, the reserve held at 31 December 2015 was nil.

24. Derivative financial instruments

In 2013 and 2014, the company purchased foreign currency contracts to hedge currency exposure on firm future commitments. Under this method, the portion of the gain or loss on a hedging instrument that is determined to be effective is recorded in equity reserves. The ineffective portion is recorded in profit and loss.

In 2015, the company purchased foreign currency contracts to hedge currency exposure on its net foreign currency asset position. Under this method, the gain or loss on a hedging instrument is recorded in profit and loss.

The fair values of the derivatives held at the balance sheet date, determined by reference to their market values, are as follows:

	Notes	2015 £000	2014 £000	2013 £000
<i>Foreign currency exchange forward contracts:</i>				
Assets		-	47	223
Liabilities		(111)	(242)	(123)
Equity Reserves	23	-	195	(103)
Included in Profit and Loss		111	-	3

Notes to the financial statements

at 31 December 2015

25. Ultimate parent company

Arrow Electronics (UK) Limited is a 100% subsidiary of Arrow Electronics UK Holding Limited, which is the domestic parent company of Arrow Electronics (UK) Limited.

The parent undertaking of the smallest group of undertakings for which the group accounts are drawn up and of which the company is a member is Arrow Electronics Emeasa S.R.L., a company established in Italy.

The parent undertaking of the largest group of undertakings for which the group accounts are drawn up and of which the company is a member is Arrow Electronics Inc, incorporated in the USA who are regarded as the ultimate parent company and controlling party.

Arrow Electronics Inc. has included the company in its group accounts. Copies of the accounts of Arrow Electronics Inc. are available from:

Arrow Electronics Inc.
7459 S. Lima Street, Building 1,
Englewood
Colorado
80112-5816
USA

26. Transition to FRS 101 and other adjustments

For all periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2015, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2014, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

On transition to FRS 101, the company has applied the requirements of paragraphs 6-33 of IFRS 1 "First time adoption of International Financial Reporting Standards".

Restatement of equity from UK GAAP to FRS 101:

Notes to the financial statements

at 31 December 2015

26. Transition to FRS 101 and other adjustments (continued)

Reconciliation of equity as at 31 December 2013

	Notes	UK GAAP £000	FRS101 Adjustments £000	Other Adjustments £000	FRS 101 £000
Fixed assets					
Goodwill		-	-	-	-
Tangible assets		1,753	-	-	1,753
		<u>1,753</u>			<u>1,753</u>
Current assets					
Debtors : amounts falling due after one year	b,c,e, f,g	92,127	92	2,198	94,417
Cash at bank		20,786	-	-	20,786
		<u>112,913</u>	<u>92</u>	<u>2,198</u>	<u>115,203</u>
Creditors: amounts falling due within one year					
Trade and other payables	b,c,d, e,f,g	28,908	149	2,246	31,303
Loans and borrowings		8,260	-	-	8,260
		<u>37,168</u>	<u>149</u>	<u>2,246</u>	<u>39,563</u>
Net current assets		<u>75,745</u>	<u>(57)</u>	<u>(48)</u>	<u>75,640</u>
Total assets less current liabilities		<u>77,498</u>	<u>(57)</u>	<u>(48)</u>	<u>77,393</u>
Creditors: amounts falling due after more than one year		36,586	-	-	36,586
Provisions for liabilities and charges	d	525	-	-	525
		<u>40,387</u>	<u>(57)</u>	<u>(48)</u>	<u>40,282</u>
Capital and reserves					
Called up share capital		5,500	-	-	5,500
Share premium account		16,500	-	-	16,500
Profit and loss account	a,b,c, d,e	14,326	(159)	519	14,686
Equity reserve	e	4,061	-	(568)	3,493
Derivative financial instruments	b	-	103	-	103
Equity shareholders' funds		<u>40,387</u>	<u>(57)</u>	<u>(48)</u>	<u>40,282</u>

Notes to the financial statements

at 31 December 2015

26. Transition to FRS 101 and other adjustments (continued)

Reconciliation of equity as at 31 December 2014

	Notes	UK GAAP £000	FRS101 Adjustments £000	Other Adjustments £000	FRS 101 £000
Fixed assets					
Goodwill	a	1,382	35	-	1,417
Tangible assets		1,781	-	-	1,781
		<u>3,163</u>	<u>35</u>		<u>3,198</u>
Current assets					
Debtors : amounts falling due after one year	b,c,e, f,g	91,325	212	2,309	93,846
Cash at bank		27,116	-	-	27,116
		<u>118,441</u>	<u>212</u>	<u>2,309</u>	<u>120,962</u>
Creditors: amounts falling due within one year					
Trade and other payables	b,c,d, e,f,g	26,732	294	2,433	29,459
Loans and borrowings		10,573	-	-	10,573
		<u>37,305</u>	<u>294</u>	<u>2,433</u>	<u>40,032</u>
Net current assets		<u>81,136</u>	<u>(82)</u>	<u>(124)</u>	<u>80,930</u>
Total assets less current liabilities		<u>84,299</u>	<u>(47)</u>	<u>(124)</u>	<u>84,128</u>
Creditors: amounts falling due after more than one year		<u>36,586</u>	<u>-</u>	<u>-</u>	<u>36,586</u>
Provisions for liabilities and charges	d	411	(100)		311
		<u>47,302</u>	<u>53</u>	<u>(124)</u>	<u>47,231</u>
Capital and reserves					
Called up share capital		5,500	-	-	5,500
Share premium account		16,500	-	-	16,500
Profit and loss account	a,b,c, d,e	20,732	248	857	21,837
Equity reserve	e	4,570	-	(981)	3,589
Derivative financial instruments	b	-	(195)	-	(195)
Equity shareholders' funds		<u>47,302</u>	<u>53</u>	<u>(124)</u>	<u>47,231</u>

Notes to the financial statements

at 31 December 2015

26. Transition to FRS 101 and other adjustments (continued)

Reconciliation of profit for the year ending 31 December 2014

	Notes	UK GAAP £000	FRS101 Adjustments £000	Other Adjustments £000	FRS 101 £000
Turnover		144,811	-	-	144,811
Cost of sales	b	126,249	(301)		125,948
Gross profit		18,562	(301)		18,863
Distribution costs	c,d,e, h	11,571	28	(3,812)	7,787
Administrative expenses excluding exceptional items	a,c,d, h	1,521	(35)	3,398	4,884
Exceptional items	d	(2,061)	(100)		(2,161)
Total administrative expenses		(541)	(135)	3,398	2,723
Operating profit		7,532	(194)	413	8,353
Interest receivable and similar income		75	-	-	75
Interest payable and similar charges		(74)	-	-	(74)
Profit on ordinary activities before taxation		7,533	(194)	413	8,354
Tax on profit on ordinary activities	f	(1,127)	-	(76)	(1,203)
Profit for the financial year		6,406	(194)	337	7,151
Other comprehensive income					
Distribution received on dissolution of group companies		-	-	-	-
Total comprehensive income for the financial year		6,406	(194)	337	7,151

Notes to the financial statements

at 31 December 2015

26. Transition to FRS 101 and other adjustments (continued)

(a) Goodwill impairment

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the company is not amortising goodwill under FRS101, but reviewing it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act.

Under UK GAAP, amortisation of £35,000 at 31 December 2014 (£nil at 31 December 2013) was applied. On transition to FRS 101, there is no amortisation.

(b) Derivative financial instruments

Under FRS 101, the portion of the gain or loss on a hedging instrument that is determined to be effective is recorded in equity reserves. The ineffective portion is recorded in profit and loss. A hedging instrument that is recognising a gain is recorded as an asset and a hedging instrument that is recognising a loss is recorded as a liability.

On transition to FRS 101, a net adjustment of £120,000 at 31 December 2014 (£4,000 at 31 December 2013) was recognised in debtors, £121,000 at 31 December 2014 (£6,000 at 31 December 2013) was recognised in trade and other creditors, (£195,000) at 31 December 2014 (£103,000 at 31 December 2013) was recognised in equity reserves, and (£301,000) in cost of sales for the year ended 31 December 2014 (£105,000 for the year ended 31 December 2013).

(c) Employee benefits (holiday pay accrual)

On transition to FRS 101, a holiday pay accrual is required to be recognised. As such, an accrual has been accounted for of £148,000 at 31 December 2014 (£141,000 at 31 December 2013). Additionally, an amount owed by group undertakings has been recognised of £92,000 at 31 December 2014 (£88,000 at 31 December 2013) for those costs associated with holiday pay that will be reimbursed by group companies. £3,000 was recognised in operating expenses for the year ended 31 December 2014 (£53,000 for the year ended 31 December 2013).

(d) Employee benefits (acquisition)

In 2014 a provision was recognised for employee costs in relation to an acquisition. On transition to FRS 101, it is required that these costs are recorded on an accruals basis. As such, provisions for liabilities and charges have been reduced by (£100,000) at 31 December 2014 (£nil at 31 December 2013) and trade and other payables have been increased by £25,000 at 31 December 2014 (£nil at 31 December 2013). (£75,000) was recognised in operating expenses for the year ended 31 December 2014 (£nil for the year ended 31 December 2013).

(e) Share based payments

Share based payments have been restated for 2013 and 2014 to reflect only share awards to those employees of the company whose costs are also borne by the company. Employees of the company whose costs are wholly allocated to other group companies are excluded as it is considered that the company will not bear the cost of these awards.

The effect of this change is a reduction to the equity reserve of (£981,000) at 31 December 2014 ((£568,000) at 31 December 2013). The deferred tax asset has been increased by £76,000 at 31 December 2014 (£nil at 31 December 2013). (£412,000) was recognised in operating expenses for the year ended 31 December 2014 ((£567,000) for the year ended 31 December 2013).

Additionally, a portion of this charge was previously included within debtors and has now been restated in these financial statements to better reflect the nature of the charge. The effect of this change is a reduction to deferred tax (included within debtors) of (£48,000) at 31 December 2014 ((£nil) at 31 December 2013).

Notes to the financial statements

at 31 December 2015

26. Transition to FRS 101 and other adjustments (continued)

(f) VAT receivables and payables

VAT has previously been stated as a net payable position for 2013 and 2014. This net position has now been restated by VAT authority to better reflect the independent nature of receivables and payables with each authority. The effect of this change is an increase to other tax receivable (included within debtors) of £503,000 at 31 December 2014 (£343,000) at 31 December 2013, and an increase to other taxes and social security costs (included within trade and other payables) of £503,000 at 31 December 2014 (£343,000 at 31 December 2013).

(g) Amounts owed to/from group undertakings

It has been determined that some amounts owed to/from group undertakings have previously been stated as net positions. These positions have now been restated to reflect the true nature of receivables and payables with group undertakings. The effect of this change is an increase to amounts owed by group undertakings (included within debtors) of £1,854,000 at 31 December 2014 (£1,855,000) at 31 December 2013, and an increase to amounts owed to group undertakings (included within trade and other payables) of £1,854,000 at 31 December 2014 (£1,855,000 at 31 December 2013).

(h) Operating expenses

Operating expenses allocated to other group companies have previously wholly been stated as a reduction to administrative expenses. However, a portion of these allocations can be attributed to distribution operations. Consequently, the company has taken the opportunity to restate expenses associated with distribution operations, that are allocated to other group companies, as a reduction to distribution expenses, to better reflect the nature of the allocations. The effect of this change is an increase to administrative expenses of £3,042,000 for the year ended 31 December 2014 and a corresponding decrease to distribution expenses of (£3,042,000) for the year ended 31 December 2014.