

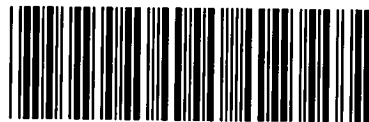
Registered No: 2582534

Arrow Electronics (UK) Limited

Report and Financial Statements

31 December 2018

TUESDAY



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COMPANIES HOUSE

Arrow Electronics (UK) Limited

Directors

G P Tarpinian (resigned 30th April 2019)
D Hassell
C Stansbury
L Hughes (appointed 22nd July 2019)

Secretary

P Ewing

Auditors

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

Bankers

HSBC Bank Plc
Poultry
London
EC2P 2BX
United Kingdom

Solicitors

Herbert Smith
Exchange House
Primrose Street
London
EC2A 2HS
United Kingdom

Registered office

Kao 1
Kao Park
Hockham Way
Harlow
Essex
CM17 9NA
United Kingdom

Strategic Report

The directors present their strategic report for the year ended 31 December 2018.

Results and dividends

The net profit for the year after taxation amounted to £12,544,000 (2017: profit of £9,737,000) after exceptional income of £1,794,000 (2017: exceptional costs of £3,544,000). The directors do not recommend the payment of any dividends.

Review of the business

Turnover increased in 2018 from 2017 by 26.4%, driven by increased trade with the company's most significant customers. Gross margin percentage decreased in 2018 from 10.3% to 10.0%. Distribution and administration costs decreased by 4.4%. This corresponds to a decrease as a percentage of sales from 6.3% to 4.8% (before reorganisation income). Operating profit percentage compared to sales increased in 2018 from 2.2% to 6.0%.

Profit and Loss Variances

	2018 £000	2017 £000	Percentage change %
Sales	249,734	197,541	26.4
Gross profit	25,057	20,386	22.9
Operating profit	14,897	4,325	244.0
Net profit on ordinary activities after tax	12,544	9,737	28.8

Future developments

Though there is still some uncertainty, the outlook for 2019 is for a reasonable level of growth in the market and expectations are that the business will see similar growth.

Brexit implications

The company is preparing for Brexit and detailed plans have already been put in place. A special governance team has been created to assess the impact and manage the transition. There is internal and external readiness in any situation and the company focussed on the hard Brexit scenario.

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.

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.

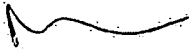
Strategic Report

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

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

24/9/19

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2018.

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:

D Hassell
C Stansbury
G P Tarpinian (resigned 30th April 2019)
L Hughes (appointed 22nd July 2019)

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 £1,700 (2017: £909).

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.

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
Secretary

24/9/19

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

Opinion

We have audited the financial statements of Arrow Electronics (UK) Limited for the year ended 31 December 2018 which comprise the Statement of Profit or Loss and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice)".

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditors' report (continued)

to the members of Arrow Electronics (UK) Limited

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Independent auditors' report (continued)

to the members of Arrow Electronics (UK) Limited

Use of our report

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.

Ernst & Young LLP

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

27 September 2019

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Turnover	2	249,734	197,541
Cost of sales		224,677	177,155
Gross profit		<u>25,057</u>	<u>20,386</u>
Distribution costs		8,597	7,328
Administrative expenses excluding exceptional items		3,375	5,189
Exceptional items	3	(1,794)	3,544
Total administrative expenses		<u>10,178</u>	<u>16,061</u>
Operating profit	4	<u>14,879</u>	<u>4,325</u>
Interest receivable and similar income	8	556	242
Interest payable and similar charges	9	(187)	(125)
Income from group loans	10	-	5,606
Profit on ordinary activities before taxation		<u>15,248</u>	<u>10,048</u>
Tax on profit on ordinary activities	12	(2,704)	(311)
Profit for the financial year	23	<u><u>12,544</u></u>	<u><u>9,737</u></u>

Arrow Electronics (UK) Limited

Balance sheet

at 31 December 2018

	Notes	31 Dec 2018 £000	31 Dec 2017 £000
Fixed assets			
Goodwill	14	1,417	1,417
Tangible assets	15	3,932	4,770
		<u>5,349</u>	<u>6,187</u>
Current assets			
Debtors: amounts falling due within one year	16	73,685	50,639
Cash at bank		70,442	85,837
		<u>144,127</u>	<u>136,476</u>
Creditors: amounts falling due within one year			
Trade and other payables	17	32,995	72,607
Loans and borrowings	17	37,107	37
		<u>70,102</u>	<u>72,644</u>
Net current assets		<u>74,025</u>	<u>63,832</u>
Total assets less current liabilities		<u>79,374</u>	<u>70,019</u>
Provisions for liabilities and charges	19	92	3,314
		<u>79,282</u>	<u>66,705</u>
Capital and reserves			
Called up share capital	22	5,500	5,500
Share premium account	23	16,500	16,500
Profit and loss account	23	53,509	40,965
Equity reserve	23	3,773	3,740
Derivative financial instruments	24	-	-
Equity shareholders' funds	23	<u>79,282</u>	<u>66,705</u>

On behalf of the board



D Hassell
Director

24/9/19

Statement of changes in equity

at 31 December 2018

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Equity reserve £000	Cash flow hedge reserve £000	Total £000
<i>At 1 January 2017</i>	5,500	16,500	31,228	3,738	-	56,966
Profit for the financial year	-	-	9,737	-	-	9,737
Total comprehensive income	-	-	9,737	-	-	9,737
Share-based payments	-	-	-	2	-	2
<i>At 31 December 2017</i>	5,500	16,500	40,965	3,740	-	66,705
Profit for the financial year	-	-	12,544	-	-	12,544
Total comprehensive income	-	-	12,544	-	-	12,544
Share-based payments	-	-	-	33	-	33
<i>At 31 December 2018</i>	5,500	16,500	53,509	3,773	-	79,282

Notes to the financial statements

at 31 December 2018

1. Accounting policies

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

Kao 1
Kao Park
Hockham Way
Harlow
Essex
CM17 9NA

The financial statements of Arrow Electronics (UK) Limited for the year ended 31 December 2018 were authorised for issue by the board of directors on 20 December 2019 and the balance sheet was signed on the board's behalf by D Hassell.

1.1 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 accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018.

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).

New and amended standards and Interpretations

The Company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. The company has applied IFRS 15 retrospectively, with the initial application date of 1 January 2018. The adoption of IFRS 15 had no material impact on the primary financial statements for any years presented within the financial statements.

Notes to the financial statements

at 31 December 2018

1. Accounting policies (continued)

1.1 Basis of preparation (continued)

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The company has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. The adoption of IFRS 9 had no material impact on the primary financial statements for any years presented within the financial statements.

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 7, 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.

1.2 Significant judgements and estimates

Intangible assets

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 2018. 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 8.65%.

1.3 Accounting policies

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.

Notes to the financial statements

at 31 December 2018

1.3 Accounting policies (continued)

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.

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.

Notes to the financial statements

at 31 December 2018

1.3 Accounting policies (continued)

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.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include loans and receivables.

Notes to the financial statements

at 31 December 2018

1.3 Accounting policies (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Income statement. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

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

	2018 £000	2017 £000
Recognised in arriving at operating profit:		
Reorganisation (income)/costs	(1,794)	3,544

2018

Reorganisation income comprise personnel restructuring cost and reversal of facilities restructuring balance as of 31 December 2018, relating to a relocation of staff from the Harlow office. This facilities restructuring balance is reversed because company is planning to reuse the empty space instead of subletting.

2017

Reorganisation costs comprise personnel and facilities restructuring costs, relating to a relocation of staff from the Harlow office.

Notes to the financial statements

at 31 December 2018

4. Operating profit

This is stated after charging:

	Notes	2018 £000	2017 £000
Auditors' remuneration – audit services		32	32
(Gain) / Loss on foreign exchange (included in cost of sales)		(107)	305
Loss / (Gain) on foreign exchange (included in administrative expenses)		105	(124)
Depreciation of owned fixed assets	14	754	663
Operating lease rentals: - land and buildings		1,053	1,231
- plant and machinery		408	374
Share based payments	7	33	2

5. Staff costs

	2018 £000	2017 £000
Wages and salaries	22,141	20,745
Social security costs	3,095	2,864
Other pension costs (note 18)	1,063	954
	<u>26,299</u>	<u>24,563</u>

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

	2018 No.	2017 No.
Directors	1	1
Staff	437	449
	<u>438</u>	<u>450</u>

6. Directors' remuneration

	2018 £000	2017 £000
Remuneration	<u>232</u>	<u>260</u>
Value of company pension contributions to pension plans	<u>-</u>	<u>-</u>
	<u>232</u>	<u>260</u>
	2018 No.	2017 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 2018

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 stock 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 Stock Units

The ultimate parent company has granted a specific number of performance stock units 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 Stock Units are awarded at the conclusion of the performance period.

Employees of the company whose costs are wholly allocated to other group companies are excluded from the calculation, as it is considered that the company will not bear the cost of these awards.

The weighted average share price at the date options were exercised was \$81.95 (2017: \$73.86).

The range of exercise prices for options outstanding at year end was \$56.43 to \$81.95 (2017: \$41.56 to \$73.86.).

The weighted average remaining contractual life for the share options outstanding at year end was 2.00 years (2017: 2.00 years).

The directors consider that the fair value of performance stock units equates to the market price of shares in the ultimate parent company on the date of the award. On vesting, each unit is settled by delivery of one share of Common Stock.

Restricted Stock Units

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.

Employees of the company whose costs are wholly allocated to other group companies are excluded from the calculation, as it is considered that the company will not bear the cost of these awards.

The weighted average share price at the date options were exercised was \$81.95 (2017: \$73.86).

The range of exercise prices for options outstanding at year end was \$56.43 to \$81.95. (2017: \$40.15 to \$73.86.).

The weighted average remaining contractual life for the share options outstanding at year end was 2.00 years (2017: 2.00 years).

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 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.

Notes to the financial statements

at 31 December 2018

8. Interest receivable and similar items

	2018 £000	2017 £000
Bank interest receivable	556	242
	<u>556</u>	<u>242</u>

9. Interest payable and similar charges

	2018 £000	2017 £000
Bank interest payable	159	115
Other interest payable	28	10
	<u>187</u>	<u>125</u>

10. Income from group loans

	2018 £000	2017 £000
Intercompany balance written off	-	5,606
	<u>-</u>	<u>5,606</u>

11. Dividend Income

During the year there was no dividend income (2017: no dividend income).

12. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2018 £000	2017 £000
<i>Current Tax:</i>		
UK corporation tax current year	2,657	612
Prior year adjustment	(34)	(312)
Total current tax (note 12(b))	<u>2,623</u>	<u>300</u>
<i>Deferred Tax:</i>		
Origination and reversal of timing differences:		
Current Period	39	25
Rate change	17	-
Prior period	25	(14)
Tax on profit on ordinary activities	<u>2,704</u>	<u>311</u>

Notes to the financial statements

at 31 December 2018

12. Tax (continued)

(b) Factors affecting current tax charge

	2018 £000	2017 £000
Profit on activities before taxation (excluding income from group loans)	15,248	4,442
Profit on activities multiplied by the standard rate of corporation tax of 19% (2017: 19.2466%)	2,897	855
Expenses not deductible for tax purposes	38	60
Income not taxable	(103)	(72)
Adjustment to deferred tax on share options	(64)	(171)
Rate difference	17	-
Group relief	(72)	(35)
Prior year adjustment	(9)	(326)
Tax on profit on ordinary activities	2,704	311

(c) Deferred tax

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

	2018 £000	2017 £000
Included in debtors (note 16)	149	230

Deferred taxation provided in the financial statements is as follows:

	2018 Provided £000	2017 Provided £000
Depreciation in advance of capital allowances	(31)	15
Other timing differences	180	215
Deferred tax asset	149	230

Roll forward of deferred tax:

	£000
Balance brought forward at 1 January 2018	230
Current period	(39)
Rate change	(17)
Prior period	(25)
Balance carried forward at 31 December 2018	149

(d) Factors affecting current tax charge

The main rate of UK Corporation Tax was reduced from 20% to 19% on 1 April 2017.

The Chancellor announced in the 2016 budget that the main rate of UK Corporation Tax is to be reduced to 17% from 1 April 2020. Finance Act 2016 received Royal Assent on 15 September 2016 with the rates being substantively enacted from 6 September 2016.

The closing deferred tax balances have been calculated at 19%, as this is the rate at which the majority of the deferred tax balances are expected to unwind. 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.

Notes to the financial statements

at 31 December 2018

13. 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
First Floor South Building, 226 Berwick Avenue, Slough, Berkshire SL1 4QT, United Kingdom.

Arrow Electronics Ltd – Dormant; never traded (dissolved 6th August 2019)
Kao 1, Kao Park, Hockham Way, Harlow, Essex CM17 9NA, United Kingdom

The cost of these investments is £1 (2016: £1).

On 28th Mar 2019, the company gave notice in the Gazette for the dormant subsidiary Arrow Electronics Ltd to be struck off the register and dissolved. Arrow Electronics Ltd officially dissolved on 6th August 2019. At 31 December, the company continued to hold 100% of the ordinary share capital of this subsidiary at a cost of £1.

14. Intangible assets

	2018 £000	2017 £000
<i>Goodwill held at fair value:</i>		
Cost and carrying amount at 1 January	1,417	1,417
Additions	-	-
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 2018. 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 8.65%.

Notes to the financial statements

at 31 December 2018

15. Tangible fixed assets

	Short leasehold improvements	Equipment and motor vehicles	Total
	£000	£000	£000
<i>Cost:</i>			
At 1 January 2018	3,669	3,445	7,114
Adjustment	(472)	-	(472)
Additions	158	238	396
Disposals	(23)	-	(23)
At 31 December 2018	3,332	3,683	7,015
<i>Depreciation:</i>			
At 1 January 2018	320	2,024	2,344
Provided during the year	297	457	754
Disposals	(15)	-	(15)
At 31 December 2018	602	2,481	3,083
<i>Net book value:</i>			
At 31 December 2017	3,349	1,421	4,770
At 31 December 2018	2,729	1,202	3,932

16. Debtors

	2018	2017
Notes	£000	£000
Trade debtors	68,923	47,700
Amounts owed by parent undertakings	831	428
Amounts owed by fellow undertakings	1,587	1,447
Prepayments and accrued income	882	594
Deferred tax (note 12(c))	149	230
Other tax receivable	1,309	235
Derivative financial instruments	24	5
	73,685	50,639

Notes to the financial statements

at 31 December 2018

17. Creditors: amounts falling due within one year

	Notes	2018 £000	2017 £000
Trade creditors		394	213
Other creditors		11	1
Amounts owed to parent undertakings		83	1,215
Amounts owed to fellow undertakings		18,804	61,696
Other taxation and social security		9,433	5,436
Accruals and deferred income		4,268	4,046
Derivative financial instruments	24	2	-
Trade and other payables		<u>32,995</u>	<u>72,607</u>
Bank overdrafts		37,107	37
Loans and borrowings		<u>37,107</u>	<u>37</u>

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 £1,063,000 (2017: £954,000).

The unpaid contributions outstanding at the year end, included in 'Accruals and deferred income' (note 17) are £1,000 (2017: £10,000).

19. Provisions for liabilities and charges

	2018 £000
At 1 January	3,314
Arising during the year	518
Utilised in the year	(2,109)
Reversed in the year	(1,631)
At 31 December	<u>92</u>

At 31 December 2018 the provision represents personnel restructuring costs.

20. Commitments under operating leases

At 31 December 2018 the company had minimum lease commitments under non-cancellable operating leases as set out below:

	2018		2017	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Commitments due:				
Within one year	1,055	364	1,036	451
In two to five years	3,743	235	3,892	530
In over five years	6,577	-	6,576	-
At 31 December 2018	<u>11,375</u>	<u>599</u>	<u>11,504</u>	<u>981</u>

Notes to the financial statements

at 31 December 2018

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

		Authorised	
		2018 £000	2017 £000
Ordinary shares of £1 each		5,500	5,500

	No.	Allotted, called up and fully paid	
		2018 £000	2017 £000
Ordinary shares of £1 each	5,500,002	5,500	5,500,002

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
<i>At 1 January 2017</i>	5,500	16,500	31,228	3,738	-	56,966
Profit for the financial year	-	-	9,737	-	-	9,737
Total comprehensive income	-	-	9,737	-	-	9,737
Share-based payments	-	-	-	2	-	2
<i>At 31 December 2017</i>	5,500	16,500	40,965	3,740	-	66,705
Profit for the financial year	-	-	12,544	-	-	12,544
Total comprehensive income	-	-	12,544	-	-	12,544
Share-based payments	-	-	-	33	-	33
<i>At 31 December 2018</i>	5,500	16,500	53,509	3,773	-	79,282

Share premium account

The share premium account represents the balance above the par value of the issued share capital. There is no movement in the share premium account during the year.

Equity reserve

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

Cash flow hedge reserve

There is no movement in cash flow hedge reserve account, as company is not involved in cash flow hedging anymore.

Notes to the financial statements

at 31 December 2018

24. Derivative financial instruments

The company purchases 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	2018 £000	2017 £000
<i>Foreign currency exchange forward contracts:</i>			
Assets		4	5
Liabilities		(2)	-
Included in Profit and Loss		(2)	(5)

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 Eneasa 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.
9201 E. Dry Creek Road,
Centennial
Colorado
80112
USA