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Arrow Electronics (UK) Limited

Report and Financial Statements

31 December 2003

ERNST & YOUNG

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COMPANIES HOUSE 28/01/05

Directors
A Oag
D Condon
P J Reilly
P Brown

Secretary
D Condon

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
Edinburgh Way
Harlow
Essex
CM20 2DF

Directors' report

The directors present their report and financial statements for the year ended 31 December 2003.

Results and dividends

The loss for the year amounted to £2,320,000 (2002: £4,142,000) after exceptional costs of £2,532,000 (2002: £2,714,000). The directors do not recommend the payment of any dividends.

Principal activities and review of the business

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

Despite a declining market the company gained market share. Turnover remained flat year on year, after excluding significant intercompany sales in 2002.

The company implemented a transfer pricing policy during 2003 to reflect the current operations of the company. This has directly impacted the cost of sales and administrative expenses reflected in the profit and loss account for the year.

During the year, one of the UK warehouses was closed as planned. The plan was completed in quarter one of 2004 when the second was closed and all the inventory was moved to the warehouse of a fellow subsidiary.

Future developments

Trading conditions in the UK showed an improvement through the second half of 2003. This continued through the first half of 2004. The balance sheet reflects a very strong cash balance and net current assets position at the end of 2003 and the directors believe that the expected trading performance in 2004 will eliminate the net deficit on total shareholders' funds, returning the balance sheet to a net asset position. In addition, the parent company, Arrow Electronics UK Holding Limited has net assets at the end of 2003 of £32.6 million. The directors of that company are considering a restructuring plan to simplify the UK corporate group structure to better reflect the group's underlying operations in the UK.

Directors

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

A Oag	
D Condon	
P J Reilly	
P Brown	(appointed 15 December 2003)
R E Klatell	(resigned 31 December 2003)
B P McNally	(resigned 31 December 2003)

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.

Directors' report

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 £8,639 (2002: £2,200).

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

David Condon

D Condon
Secretary

27/ 1 / 2005

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

Ernst & Young

Independent auditors' report

to the members of Arrow Electronics (UK) Limited

We have audited the company's financial statements for the year ended 31 December 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 20. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Luton

27 January 2005

Profit and loss account
for the year ended 31 December 2003

	Notes	2003 £000	2002 £000
Turnover	2	131,493	176,045
Cost of sales		118,701	147,535
Gross profit		12,792	28,510
Distribution costs		12,164	22,316
Administrative expenses:			
Continuing		1,273	7,067
Exceptional	4	2,532	2,714
Total administrative expenses		3,805	9,781
Operating loss	3	(3,177)	(3,587)
Interest receivable	7	904	682
Interest payable and similar charges	8	(47)	(1,237)
		857	(555)
Loss on ordinary activities before taxation		(2,320)	(4,142)
Tax on loss on ordinary activities	9	–	–
Loss for the financial year	19	(2,320)	(4,142)

Statement of total recognised gains and losses
There are no recognised gains or losses other than the loss of £2,320,000 (2002: £4,142,000) attributable to the shareholders for the year.

Balance sheet
at 31 December 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Tangible assets	10	5,683	6,184
Current assets			
Debtors	11	42,976	42,352
Cash at bank		26,806	36,705
		69,782	79,057
Creditors: amounts falling due within one year	12	37,250	44,835
Net current assets		32,532	34,222
Total assets less current liabilities		38,215	40,406
Creditors: amounts falling due after more than one year	13	36,586	36,586
Provisions for liabilities and charges	15	1,930	1,801
		(301)	2,019
Capital and reserves			
Called up share capital	18	5,500	5,500
Share premium account	19	16,500	16,500
Profit and loss account	19	(22,301)	(19,981)
Equity shareholders' funds	19	(301)	2,019

Alistair Oag
A Oag
Director

David Condon
D Condon
Director

27/1/2005

Notes to the financial statements
at 31 December 2003

1. Accounting policies (continued)

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

The accounting reference date of the company is 31 December and accounts are drawn up to a Friday within seven days of that date.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

Related parties transactions

The company is a wholly owned subsidiary of Arrow Electronics UK Holding Limited, the consolidated accounts of which are publicly available.

Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investees of the Arrow Electronics group.

Goodwill

Goodwill represents the excess of the fair value of the consideration given over the fair value of the separable net assets acquired. Goodwill arising on acquisitions prior to 31 December 1997 was set off directly against reserves and has not been reinstated on implementation of FRS 10. If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves will be taken into account in determining the profit or loss on sale or closure.

Fixed assets

All fixed assets are initially recorded at cost.

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
Leasehold Property	-	the shorter of 20 years or the life of the lease
Plant & Machinery	-	3 to 15 years
Fixtures & Fittings	-	3 to 15 years
Equipment	-	3 to 15 years
Motor Vehicles	-	4 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Notes to the financial statements
at 31 December 2003

1. Accounting policies (continued)

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing 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.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

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

All differences are taken to 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 defined contribution pension scheme 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 scheme.

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.

An analysis of turnover by geographical market is not given, as the directors believe it would be seriously prejudicial to the interests of the company.

Notes to the financial statements
at 31 December 2003

3. Operating loss
This is stated after charging/(crediting):

		2003 £000	2002 £000
Auditors' remuneration	- audit services	26	80
	- non-audit services	94	43
		120	123
Depreciation of owned fixed assets		1,033	1,526
Write down of assets no longer in use		–	567
		1,033	2,093
Profit on disposal of fixed assets		(71)	(92)
Operating lease rentals	- land and buildings	627	654
	- plant and machinery	643	698

4. Exceptional items

	2003 £000	2002 £000
Recognised in arriving at operating profit:		
Profit on sale of a property lease	203	–
Administrative expenses	(2,735)	(2,714)
	(2,532)	(2,714)

Exceptional administrative expenses of £2,735,000 (2002: £2,714,000) relate to the warehouse closure programme.

5. Staff costs

	2003 £000	2002 £000
Wages and salaries	14,804	15,800
Social security costs	1,519	1,501
Other pension costs (note 14)	467	503
	16,790	17,804

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

	2003 No.	2002 No.
Directors	2	3
Staff	466	557
	468	560

Notes to the financial statements
at 31 December 2003

6. Directors' emoluments

	2003 £000	2002 £000
Emoluments	249	418
Value of company pension contributions to money purchase schemes	12	13

	2003 No.	2002 No.
Members of money purchase pension schemes	2	3

The amounts in respect of the highest paid director are as follows:

	2003 £000	2002 £000
Emoluments	130	167
Value of company pension contributions to money purchase schemes	7	–

Certain directors' emoluments are borne by fellow Arrow Electronics Inc. companies as these directors are also directors or officers of a number of companies within the Arrow Electronics Inc. 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 for the years ended 31 December 2003 and 31 December 2002.

7. Interest receivable

	2003 £000	2002 £000
Bank interest receivable	904	680
Other interest	–	2
	904	682

8. Interest payable and similar charges

	2003 £000	2002 £000
Bank interest payable	25	331
Interest payable to fellow subsidiary undertakings	–	879
Other interest payable	22	27
	47	1,237

Notes to the financial statements
at 31 December 2003

9. Tax
(a) Factors affecting current tax charge

The differences are reconciled below:

	2003 £000	2002 £000
Loss on ordinary activities before taxation	(2,320)	(4,142)
Loss on ordinary activities multiplied by the standard rate of corporation tax of 30% (2002: 30%)	(696)	(1,243)
Expenses not deductible for tax purposes	46	53
Non-qualifying depreciation for tax purposes	71	281
Accelerated capital allowances	215	(153)
Group relief	187	128
Tax losses	177	930
Capital gains	–	4
Total current tax	–	–

(b) Factors that may affect future tax charges

The company has tax losses arising in the UK of £6,977,000 (2002: £6,827,000) that are available indefinitely for offset against future taxable profits of the company. Deferred tax assets have not been recognised in respect of these losses on the grounds of insufficient certainty over the timing and extent of future profits. At the year end, the company has a total unprovided deferred tax (asset) as follows:

	2003 £000	2002 £000
Accelerated capital allowances	(1,378)	(1,163)
Tax losses carried forward	(2,093)	(2,048)
Other timing differences	(18)	(18)
	(3,489)	(3,229)

Notes to the financial statements
at 31 December 2003

10. Tangible fixed assets

	Freehold Property £000	Short leasehold improvements £000	Equipment and motor vehicles £000	Total £000
Cost:				
At 1 January 2003	5,928	3,895	9,518	19,341
Additions	14	398	121	533
Disposals	–	–	(163)	(163)
At 31 December 2003	5,942	4,293	9,476	19,711
Depreciation:				
At 1 January 2003	1,340	3,452	8,365	13,157
Provided during the year	200	162	671	1,033
Disposals	–	–	(162)	(162)
At 31 December 2003	1,540	3,614	8,874	14,028
Net book value:				
At 31 December 2003	4,402	679	602	5,683
At 1 January 2003	4,588	443	1,153	6,184

11. Debtors

	2003 £000	2002 £000
Trade debtors	27,080	23,567
Amounts owed by group undertakings	14,918	17,840
Other debtors	326	379
Prepayments and accrued income	652	566
	42,976	42,352

12. Creditors: amounts falling due within one year

	2003 £000	2002 £000
Bank overdraft	–	1,697
Trade creditors	1,011	323
Amounts owed to group undertakings	32,491	41,626
Other taxation and social security	2,310	463
Other creditors	–	1
Accruals and deferred income	1,438	725
	37,250	44,835

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Notes to the financial statements

at 31 December 2003

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

	2003 £000	2002 £000
Amounts owed to group undertakings	36,586	36,586

The company's ultimate parent undertaking, Arrow Electronics Inc., has a revolving global multi-currency credit agreement, under which its overseas subsidiaries are able to borrow. The facility was renewed in December 2003 for a period of three years. Loans are provided at variable interest rates which are linked to the Euro-currency rate. The global multicurrency facility requires that working capital, net worth and certain other financial ratios for the worldwide group are maintained at designated levels. At the year end the company had £nil (2002: £nil) loans outstanding under the revolving global multi-currency credit agreement. There are no fees or compensating balances associated with these borrowings.

14. Pensions

The company operates a defined contribution (money purchase) scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £467,000 (2002: £503,000).

15. Provisions for liabilities and charges

	£000
At 1 January 2003	1,801
Arising during the year	2,735
Utilised in the year	(2,606)
At 31 December 2003	1,930

The additional provision during the year relates to the warehouse closure programme in the UK.

16. Commitments under operating leases

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as set out below:

	2003 Land and buildings £000	2003 Other £000	2002 Land and buildings £000	2002 Other £000
Operating leases which expire:				
Within one year	–	161	–	1
In two to five years	60	214	31	361
In over five years	528	–	528	–
	588	375	559	362

Notes to the financial statements

at 31 December 2003

17. Related party transactions

The company has taken advantage of the exemptions available to subsidiary undertakings under FRS 8 by not disclosing transactions with entities of the group qualifying as related parties. There are no other related party transactions requiring disclosure.

18. Share capital

		Authorised
	2003	*2002*
	£000	*£000*
Ordinary shares of £1 each	5,500	5,500

		Allotted, called up and fully paid		
		2003		*2002*
	No.	*£000*	*No.*	*£000*
Ordinary shares of £1 each	5,500,002	5,500	5,500,002	5,500

19. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Share premium account*	*Profit and loss account*	*Total share-holders' funds*
	£000	*£000*	*£000*	*£000*
At 1 January 2002	5,500	16,500	(15,839)	6,161
Loss for the year	–	–	(4,142)	(4,142)
At 31 December 2002	5,500	16,500	(19,981)	2,019
Loss for the year	–	–	(2,320)	(2,320)
At 31 December 2003	5,500	16,500	(22,301)	(301)

The cumulative amount of goodwill written off at 31 December 2003 was £21,192,000 (2002: £21,192,000).

Notes to the financial statements
at 31 December 2003

20. Ultimate parent company

Arrow Electronics (UK) Limited is a 100% subsidiary of Arrow Electronics UK Holding Limited, a company with net assets at 31 December 2003 of £32.6 million. Arrow Electronics UK Holding Limited has included the company in its group accounts, copies of which are available from its registered office:

Edinburgh Way
Harlow
Essex
CM20 2DF

The ultimate parent undertaking and controlling party is Arrow Electronics Inc.,which is incorporated in the US. 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.
50 Marcus Drive
Melville
New York
11747 USA