2

Registered No: 2582534

Arrow Electronics (UK) Limited

Report and Financial Statements

31 December 2016

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
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
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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 2016.

Results and dividends

The net profit for the year after taxation before other comprehensive income amounted to £6,834,000 (2015: profit of £2,557,000) after exceptional costs of £385,000 (2015: exceptional costs of £75,000). The directors do not recommend the payment of any dividends.

Review of the business

Turnover increased in 2016 from 2015 by 19.9%, driven by increased trade with the company's most significant customers. Gross margin percentage increased in 2016 from 10.6% to 11.1%. Distribution and administration costs decreased by 12.3% as the business reduced its UK-focussed cost base and increased its shared services. This corresponds to a decrease as a percentage of sales from 8.8% to 6.4% (before reorganisation costs and intercompany loan waivers). Operating profit percentage compared to sales (excluding gains from waiver of intercompany loans) increased in 2016 from 1.8% to 4.5%.

Profit and Loss Variances

	2016 *£000*	*2015* *£000*	*Percentage change %*
Sales	175,624	146,457	19.9
Gross profit	19,459	15,579	24.9
Operating profit (excluding loan waiver gains)	7,802	2,654	194.0
Net profit on ordinary activities after tax (excluding loan waiver gains)	6,834	2,557	167.3

Future developments

Though there is still some uncertainty, the outlook for 2017 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

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

<u>Credit risk</u> 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

14.8.17

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2016.

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 (appointed 10th Mar 2016)
C Stansbury (appointed 23rd Jun 2016)
P J Reilly (resigned 1st Jun 2016)
J A Ward (resigned 10th Mar 2016)
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 £832 (2015: £1,075).

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

14.8.17

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 2016 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 24. 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 2016 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, 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.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent auditors' report (continued)

to the members of Arrow Electronics (UK) Limited

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 identified no material misstatements in the Strategic Report or Directors' Report.

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.

Ernst & Young LLP

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

15th August 2017

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2016

	Notes	*2016* *£000*	*2015* *£000*
Turnover	2	175,624	146,457
Cost of sales		156,165	130,878
Gross profit		19,459	15,579
Distribution costs		7,556	8,571
Administrative expenses excluding exceptional items		3,716	4,279
Exceptional items	3	385	75
Total administrative expenses		11,657	12,925
Operating profit	4	7,802	2,654
Interest receivable and similar income	8	220	184
Interest payable and similar charges	9	(92)	(77)
Profit on ordinary activities before taxation		7,930	2,761
Tax on profit on ordinary activities	11	(1,096)	(204)
Profit for the financial year	22	6,834	2,557

Balance sheet
at 31 December 2016

	Notes	*31 Dec 2016* *£000*	*31 Dec 2015* *£000*
Fixed assets			
Goodwill	13	1,417	1,417
Tangible assets	14	3,944	898
		5,361	2,315
Current assets			
Debtors : amounts falling due within one year	15	44,099	31,949
Cash at bank		73,151	46,581
		117,250	78,530
***Creditors:* amounts falling due within one year**			
Trade and other payables	16	46,022	21,194
Loans and borrowings	16	19,595	9,438
		65,617	30,632
Net current assets		51,633	47,898
Total assets less current liabilities		56,994	50,213
Provisions for liabilities and charges	18	28	181
		56,966	50,032
Capital and reserves			
Called up share capital	21	5,500	5,500
Share premium account	22	16,500	16,500
Profit and loss account	22	31,228	24,394
Equity reserve	22	3,738	3,638
Derivative financial instruments	23	-	-
Equity shareholders' funds	22	56,966	50,032

On behalf of the board

D Hassell 14.8.17
Director

Statement of changes in equity
at 31 December 2016

	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 2015	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
Profit for the financial year	-	-	6,834	-	-	6,834
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	6,834	-	-	6,834
Share-based payments	-	-	-	100	-	100
Movement on derivatives	-	-	-	-	-	-
At 31 December 2016	5,500	16,500	31,228	3,738	-	56,966

Notes to the financial statements
at 31 December 2016

1. Accounting policies

Arrow Electronics (UK) Limited (the "Company") is a 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 2016 were authorised for issue by the board of directors on 14 August 2017 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 2016.

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 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.

Notes to the financial statements

at 31 December 2016

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 2016. 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 9.6%.

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.

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.

Notes to the financial statements
at 31 December 2016

1.3 *Accounting policies (continued)*

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.

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.

Notes to the financial statements
at 31 December 2016

1.3 *Accounting policies (continued)*

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.

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.

Notes to the financial statements
at 31 December 2016

3. Exceptional items

	2016 £000	2015 £000
Recognised in arriving at operating profit:		
Reorganisation Costs	385	75

2016
Reorganisation costs comprise personnel restructuring costs, and incremental costs associated with sites closed prior to 2016.

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 2015.

4. Operating profit

This is stated after charging:

		Notes	2016 £000	2015 £000
Auditors' remuneration – audit services			35	41
(Gain) / loss on foreign exchange (included in cost of sales)			(443)	2,750
(Gain) / loss on foreign exchange (included in administrative expenses)			(217)	40
Depreciation of owned fixed assets		14	300	1,316
Operating lease rentals	- land and buildings		458	506
	- plant and machinery		472	218
Share based payments		7	100	49

5. Staff costs

	2016 £000	2015 £000
Wages and salaries	18,045	17,594
Social security costs	2,322	2,352
Other pension costs (note 17)	860	851
	21,227	20,797

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

	2016 No.	2015 No.
Directors	1	1
Staff	412	392
	413	393

Notes to the financial statements
at 31 December 2016

6. Directors' remuneration

	2016	*2015*
	£000	*£000*
Remuneration	257	202
Value of company pension contributions to pension plans	-	-

	2016	*2015*
	No.	*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.

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 $56.43 (2015: $62.13).
The range of exercise prices for options outstanding at year end was $41.56 to $62.13 (2015: $41.56 to $62.13).
The weighted average remaining contractual life for the share options outstanding at year end was 1.00 years (2015: 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.

Notes to the financial statements
at 31 December 2016

7. Share based payments (continued)

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 $56.43 (2015: $62.13).
The range of exercise prices for options outstanding at year end was $40.15 to $62.13 (2015: $40.15 to $62.13).
The weighted average remaining contractual life for the share options outstanding at year end was 1.07 years (2015: 1.80 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.

8. Interest receivable and similar items

	2016	*2015*
	£000	*£000*
Bank interest receivable	220	184
Other interest receivable	-	-
	220	184

9. Interest payable and similar charges

	2016	*2015*
	£000	*£000*
Bank interest payable	65	62
Other interest payable	27	15
	92	77

10. Dividend Income

During the year there was no dividend income (2015: no dividend income).

Notes to the financial statements
at 31 December 2016

11. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2016 *£000*	*2015* *£000*
Current Tax:		
UK corporation tax	1,059	316
Total current tax (note 11(b))	1,059	316
Deferred Tax:		
Origination and reversal of timing differences:		
Current Period	213	(112)
Rate change	(11)	16
Prior period	(165)	(16)
Tax on profit on ordinary activities	1,096	204

(b) Factors affecting current tax charge

	2016 *£000*	*2015* *£000*
Profit on activities before taxation	7,930	2,761
Profit on activities multiplied by the standard rate of corporation tax of 20% (2015: 20.25%)	1,586	559
Expenses not deductible for tax purposes	51	36
Income not taxable	-	(188)
Adjustment to deferred tax on share options	(68)	-
Rate difference	(10)	16
Group relief	(221)	(226)
Prior year adjustment	(242)	7
Tax on profit on ordinary activities	1,096	204

(c) Deferred tax

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

	2016 *£000*	*2015* *£000*
Included in debtors (note 15)	241	278

Deferred taxation provided in the financial statements is as follows:

	2016 *Provided* *£000*	*2015* *Provided* *£000*
Depreciation in advance of capital allowances	60	204
Other timing differences	181	74
Deferred tax asset	241	278

Notes to the financial statements
at 31 December 2016

11. Tax (continued)

Roll forward of deferred tax:

	£000
Balance brought forward at 1 January 2016	278
Current period	(213)
Rate change	11
Prior period	165
Balance carried forward at 31 December 2016	241

(d) Factors affecting current tax charge

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

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 (2015: £1).

13. Intangible assets

	2016 £000	*2015* £000
Goodwill held at fair value:		
Cost and carrying amount at 1 January	1,417	1,417
Additions	-	-
Cost and carrying amount at 31 December	1,417	1,417

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 2016. 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 9.6%.

Notes to the financial statements
at 31 December 2016

14. Tangible fixed assets

	Short leasehold improvements £000	*Equipment and motor vehicles £000*	*Total £000*
Cost:			
At 1 January 2016	1,907	2,157	4,064
Additions	2,493	929	3,422
Disposals	(1,842)	(19)	(1,861)
At 31 December 2016	2,558	3,067	5,625
Depreciation:			
At 1 January 2016	1,725	1,441	3,166
Provided during the year	127	173	300
Disposals	(1,775)	(10)	(1,785)
At 31 December 2016	77	1,604	1,681
Net book value:			
At 31 December 2015	182	716	898
At 31 December 2016	2,481	1,463	3,944

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.

15. Debtors

	Notes	*2016 £000*	*2015 £000*
Trade debtors		41,996	29,241
Amounts owed by parent undertakings		340	1,001
Amounts owed by fellow undertakings		1,138	492
Prepayments and accrued income		293	570
Deferred tax (note 11(c))		241	278
Other tax receivable		69	367
Derivative financial instruments	23	22	-
		44,099	31,949

Notes to the financial statements
at 31 December 2016

16. Creditors: amounts falling due within one year

	Notes	2016 £000	2015 £000
Trade creditors		664	298
Other creditors		16	-
Amounts owed to parent undertakings		525	1,156
Amounts owed to fellow undertakings		37,956	12,989
Other taxation and social security		4,053	3,524
Accruals and deferred income		2,808	3,116
Derivative financial instruments	23	-	111
Trade and other payables		46,022	21,194
Bank overdrafts		19,595	9,438
Loans and borrowings		19,595	9,438

17. 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 £860,000 (2015: £851,000).

The unpaid contributions outstanding at the year end, included in 'Accruals and deferred income' (note 16) are £138,000 (2015: £129,000).

18. Provisions for liabilities and charges

	2016 £000
At 1 January	181
Arising during the year	385
Utilised in the year	(538)
At 31 December	28

At 31 December 2016 the provision represents personnel restructuring costs.

19. Commitments under operating leases

At 31 December 2016 the company had minimum lease commitments under non-cancellable operating leases as set out below:

	2016		2015	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Commitments due:				
Within one year	922	438	943	354
In two to five years	3,185	851	3,698	1,416
In over five years	7,851	-	5,011	-
At 31 December 2016	11,958	1,289	9,652	1,770

Notes to the financial statements
at 31 December 2016

20. 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.

21. Share capital

		Authorised
	2016	*2015*
	£000	*£000*
Ordinary shares of £1 each	5,500	5,500

			Allotted, called up and fully paid	
		2016		*2015*
	No.	*£000*	*No.*	*£000*
Ordinary shares of £1 each	5,500,002	5,500	5,500,002	5,500

22. 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 2015	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
Profit for the financial year	-	-	6,834	-	-	6,834
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	6,834	-	-	6,834
Share-based payments	-	-	-	100	-	100
Movement on derivatives	-	-	-	-	-	-
At 31 December 2016	5,500	16,500	31,228	3,738	-	56,966

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 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 reserves held at 31 December 2015 and 31 December 2016 were nil.

Notes to the financial statements
at 31 December 2016

23. 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	*2016* *£000*	*2015* *£000*
Foreign currency exchange forward contracts:			
Assets		22	-
Liabilities		-	(111)
Included in Profit and Loss		22	111

24. 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.
9201 E. Dry Creek Road,
Centennial
Colorado
80112
USA