Arrow ECS Denmark A/S

Jens Juuls Vej 42, 8260 Viby J

CVR no. 28 10 10 82

Annual report 2019

Approved at the Company's annual general meeting on 19 June 2020

Chairman:

DocuSigned by:

D407340B4D86426...

Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Arrow ECS Denmark A/S for the financial year 1 January - 31 December 2019.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2019.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Aarhus, 19 June 2020
Executive Board:

DocuSigned by:
John Normann
DD0B703B327140E...
John Normann Refsgaard

Board of Directors:

DocuSigned by:
D407340B4D86426...
Christopher David Stansbury
Chairman

DocuSigned by:
Henrik Resting-Jeppesen
4A207DFBE3AA468...
Henrik Resting-Jeppesen

DocuSigned by:
E00C0FE8FAAD4AE...
Frederik Petrus Antonilus Cornelis Stolwijk

DocuSigned by:
Stefan Høg
FEE52A357025467...
Stefan Høg

DocuSigned by:
John Normann
DD0B703B327140E...
John Normann Refsgaard

Independent auditor's report

To the shareholder of Arrow ECS Denmark A/S

Opinion

We have audited the financial statements of Arrow ECS Denmark A/S for the financial year 1 January - 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations as well as the cash flows for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines 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, Management is 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 and the additional requirements applicable in Denmark 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 the financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor's report

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and 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 Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Aarhus, 19 June 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Steen Skorstengaard	Nikolai Holm Pedersen
State Authorised Public Accountant	State Authorised Public Accountant
mne19709	mne45896

Management's review

Company details

Name	Arrow ECS Denmark A/S
Address, Postal code, City	Jens Juuls Vej 42, 8260 Viby J
CVR no.	28 10 10 82
Established	23 August 2004
Registered office	Aarhus
Financial year	1 January - 31 December
Website	www.arrowecs.dk
Board of Directors	Christopher David Stansbury, Chairman Henrik Resting-Jeppesen Frederik Petrus Antonilus Cornelis Stolwijk Stefan Høg John Normann Refsgaard
Executive Board	John Normann Refsgaard
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25, P.O. Box 330, 8100 Aarhus C, Denmark
Bankers	Danske Bank A/S Bank Mendes Gans N.V. MP Banki

Management's review

Financial highlights

DKK'000	2019	2018	2017	2016	2015
Key figures					
Revenue *	1,239,225	2,353,107	2,137,597	2,289,392	2,305,498
Gross profit	157,515	164,000	156,296	161,037	161,376
Operating profit/loss	68,289	72,410	65,482	72,619	71,928
Net financials	-6,397	-4,097	-687	2,302	7,011
Profit for the year	48,072	55,303	50,851	59,125	61,310
Total assets	1,475,225	1,332,865	1,307,778	1,035,759	1,217,352
Investment in property, plant and equipment	-510	-332	-1,128	-1,164	-3,396
Equity	444,770	396,698	341,396	290,545	231,420
Financial ratios					
Operating margin	5.5%	3.1%	3.1%	3.2 %	3.1 %
Gross margin	12.7%	7.0%	7.3%	7.0%	7.0%
Return on assets	4.9%	5.5%	5.6%	6.4%	5.6%
Equity ratio	30.1%	29.8%	26.1%	28.1%	19.0%
Return on equity	11.4%	15.0%	16.1%	22.7%	19.7%
Average number of employees	114	120	125	129	127

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Ordinary operating profit/loss	Profit/loss before financial items adjusted for other operating income and other operating expenses
Operating margin	$\frac{\text{Operating profit (EBIT) x 100}}{\text{Revenue}}$
Gross margin ratio	$\frac{\text{Gross margin x 100}}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/loss from operating activites x 100}}{\text{Average assets}}$
Equity ratio	$\frac{\text{Equity, year-end x 100}}{\text{Total equity and liabilities, year-end}}$
Return on equity	$\frac{\text{Profit/loss after tax x 100}}{\text{Average equity}}$

*The comparative key figures have not been restated to reflect the implementation of IFRS 15. Please refer to Management's review for a description of the effect that the implementation of IFRS 15 has had on the recognition of revenue.

Management's review

Business review

As in prior years, the Company's main activities are sales of IT infrastructure and related software and consultancy services to businesses in the Nordic area.

Focus areas are cloud, hosting, middleware, mobility, virtualisation, access infrastructure, network & security and server & storage.

The Company combines its cutting-edge technical competences within the above areas with a wide range of value-adding services, covering everything from market and competitor analysis to product positioning, marketing, technical support and training, to offer turnkey solutions that contribute to enhancing the growth potential of producers as well as resellers.

The Company cooperates with a large number of the world's largest and most innovative IT producers, carefully selected based on the clout and market potential of their products.

Unusual matters having affected the financial statements

The Company has chosen to use IFRS 15 as interpretation for revenue recognition. In previous years, IAS 11/IAS 18 have been used. The change is based on the intent to align fully with group reporting and also to measure and present revenue in accordance with the newest standards.

In order to align with the reporting standard applied by Arrow Electronics Inc. on a global/consolidated basis, the Company has decided to implement IRFS 15 in Denmark as of 2019, resulting in a change in the recognition of revenue as shown below and described in note 1.

The transition to the IFRS 15 principles has not caused any change in the measurement of revenue in terms of amount and timing.

Had a full retrospective method been used for the implementation of IFRS 15, revenue would have been presented as shown below for the 5 years mentioned in the key figures above:

DKK'000	2019	2018	2017	2016	2015
Revenue					
Net revenue					
Gross billings	2.403.026	2.353.106	2.138.096	2.289.820	2.306.345
Minus: Fee for Service (net treatment)	-1.214.819	-1.134.197	-1.025.155	-995.499	-889.639
Plus: Net margin Fee for Service	51.019	50.613	55.435	57.669	50.710
	1.239.225	1.269.523	1.168.376	1.351.990	1.467.416

Financial review

In 2019, the Company's revenue amounted to DKK 1,239,225 thousand against DKK 1,269,523 thousand last year (restated). The income statement for 2019 shows a profit of DKK 48,072 thousand against a profit of DKK 55,303 thousand last year, and the balance sheet at 31 December 2019 shows equity of DKK 444,770 thousand.

Revenue and results for the year are in line with the outlook for 2019.

Non-financial matters

Knowledge resources

Massive investments have been made to create one of the country's most powerful competence centres within IT products, market conditions, support and training.

Ongoing training and competence development ensure that we always hold cutting-edge competence within all areas.

Management's review

Statutory CSR report

Labor Conditions

Risks: Arrow has identified the potential risks of harassment and discrimination of employees.

Policy: Arrow is committed to a work environment in which all individuals are treated with respect and dignity. Such a work environment cannot exist in the presence of harassment or discrimination, which are contrary to Arrow's policies and interests.

Actions: Arrow strongly encourages its employees to report any incidents of discrimination, harassment or retaliation to appropriate Company officials. Employees who believe they have experienced conduct that may be contrary to Arrow policy or who have concerns about such matters may report their concerns to their immediate manager or the Human Resources Department. Arrow prohibits retaliation against any employee who reports discrimination or harassment or participates in an investigation of such reports. All reported allegations of harassment, discrimination, and retaliation are investigated promptly, thoroughly and impartially.

Results: During 2019, there have not been any reported allegations of harassment, discrimination or retaliation.

Human Rights

Risks: As one of the largest technology lifecycle solutions providers in the world we realize that our supply chain generates as potential risk of violating human rights.

Policy: At Arrow we are committed to ensuring that there is no slavery, servitude, forced or compulsory labor or human trafficking in our supply chain or in any part of our businesses and have a zero-tolerance to such conducts.

Actions: Arrow believes in the importance of its business partners adhering to our high ethical and legal standards, and therefore require its business partners to review and comply with our Business Partner Code of Conduct. Arrow also offers training to partners to make certain of their understanding of all applicable laws, rules and regulations while conducting Arrow business. We further expect each entity in our supply chains to have suitable anti-slavery and human trafficking policies and processes, and we conduct third party due diligence in accordance with our procedures. We expect each entity to, at least, adopt "one-up" due diligence on the next link in the chain.

Results: During 2019, Arrow has not been aware of any violations to the Business Partner Code of Conduct.

Environment and Climate

Risks: Arrow's biggest risks related to the environment and climate are identified as waste in the production and CO2 emissions from business travel.

Policy: Arrow is committed to reducing its environmental footprint. Our approach includes amongst other things the use of environmental and climate friendly technologies, avoidance of emissions, reducing waste, and the use of energy-saving solutions.

Actions: Arrow voluntarily complies with internationally recognized environmental management quality standards and is ISO 14001-certified. This specifically includes a strong focus on waste management and CO2 emissions. To reduce our CO2 emissions, Arrow has initiated telepresence using Microsoft Teams to reduce business travel, which is our single-largest source of carbon emissions. To reduce the amount of waste, Arrow has increased the focus on recycling of materials in our production facilities.

Results: As a result, Arrow has managed to decrease the amount of waste going to landfill and our CO2 emissions during 2019.

Anti-corruption

Risks: Arrow has identified the most material risks associated with anti-corruption as related to gifts and entertainment that employees may give or receive.

Policy: Employees and Representatives are prohibited from paying, offering, authorizing, or promising, either directly or indirectly, money or anything of value to any individual to secure an improper advantage, obtain or retain business, or direct business to any other person or entity.

Management's review

Actions: The company policy and guidelines on purchasing or acceptance of gifts is communicated to all employees on a continuously basis. Employees must refer to the gift policy prior to the purchase or acceptance of a gift. All gifts to a government official or entity must be reviewed in advance with the CFO and the Law Department.

Results: During 2019, Arrow has not been aware of any violations of the guidelines.

Account of the gender composition of Management

The Board of Directors targets a representation of the underrepresented sex on the Board of Directors of 20% equalizing 1 out of 5 members. The goal of the Board of Directors is that the target must be achieved before the end of 2021. At present, the Company has not reached the target and is working on promoting more of the underrepresented sex to managers to secure a talent pool of the underrepresented sex, which in future can be selected for the Board of Directors.

Management has also adopted a group guideline to increase the share of the underrepresented sex at other managerial levels, including department managers and team leaders. The guideline lays down the framework for individual managers' career development, including mentoring schemes, as well as internal targets for the underrepresented gender's share of managerial positions. The guideline also lays down targets for recruitment and retention of female managers. The Company has launched the following specific measures to increase the share of the underrepresented sex:

- Individual career planning support
- Mentoring schemes
- A staff policy that promotes equal career opportunities for men and women
- Recruitment procedures that contribute to ensuring equal opportunities for men and women

Based on these measures, the Company expects the share of the underrepresented sex at other managerial levels than the board to increase. The target for other managerial positions is 35-40% by the end of 2021. The share of the underrepresented sex at the end of 2019 is 29% which is below our target and initiatives are therefore planned in future to get in line with our target.

Arrow did not meet the target in 2019 as it was not possible to identify any qualified female candidates to nominate for the Board of directors or for promotion to other managerial positions. Arrow aims to improve the balance in the executive group, although the primary criteria remain to secure the right competence in all types of positions.

Events after the balance sheet date

At the time of preparation of this annual report, the world is feeling the very significant impact of the COVID-19 pandemic. The Company is continuously assessing the impact this may have and is taking all necessary measures to protect the health and safety of its employees, comply with national and company policies, and protect its business.

Besides the above mentioned, no further events have occurred after the financial year end which could significantly affect the Company's financial position.

Outlook

For 2020, revenue and profit at the same level as in 2019 are expected.

Up to the date this annual report is issued, the impact of COVID-19 on our financial results is limited. It is not possible at this moment to assess the impact this will have on our business in the future as this depends on how this pandemic will further develop in the months to come.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2019	2018
2	**Revenue**	1,239,225	2,353,107
	Cost of sales	-1,039,539	-2,149,177
	Other external expenses	-42,171	-39,930
	Gross profit	157,515	164,000
3	Staff costs	-87,932	-89,929
	Amortization/depreciation of intangible assets and property, plant and equipment	-1,294	-1,661
	Profit before net financials	68,289	72,410
	Income from investments in group entities	-126	2,155
	Financial income	1,293	2,459
	Financial expenses	-7,690	-6,556
	Profit before tax	61,766	70,468
4	Tax for the year	-13,694	-15,165
	Profit for the year	48,072	55,303

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2019	2018
	ASSETS		
	Fixed assets		
5	**Intangible assets**		
	Goodwill	2,275	2,600
		2,275	2,600
6	**Property, plant and equipment**		
	Other fixtures and fittings, tools and equipment	540	603
	Leasehold improvements	1,049	1,445
		1,589	2,048
7	**Investments**		
	Investments in group entities	7,778	7,904
		7,778	7,904
	Total fixed assets	11,642	12,552
	Non-fixed assets		
	Inventories		
	Finished goods and goods for resale	151,260	110,856
		151,260	110,856
9	**Receivables**		
	Trade receivables	707,855	696,886
	Receivables from group entities	156,870	187,971
	Receivables from group entities, cash-pool	668	140,238
11	Deferred tax assets	0	76
	Joint taxation contribution receivable	6,572	4,640
	Other receivables	3,004	1,735
8	Prepayments	4,598	24,086
		879,567	1,055,632
	Cash	432,756	153,825
	Total non-fixed assets	1,463,583	1,320,313
	TOTAL ASSETS	1,475,225	1,332,865

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2019	2018
	EQUITY AND LIABILITIES		
	Equity		
10	Share capital	1,000	1,000
	Net revaluation reserve according to the equity method	2,052	2,178
	Retained earnings	441,718	393,520
	Total equity	444,770	396,698
	Provisions		
11	Deferred tax	190	0
	Total provisions	190	0
	Liabilities other than provisions		
12	**Non-current liabilities other than provisions**		
	Other payables	2,778	0
		2,778	0
	Current liabilities other than provisions		
	Trade payables	969,362	845,304
	Payables to group entities	7,394	8,406
	Other payables	50,731	82,457
		1,027,487	936,167
	Total liabilities other than provisions	1,030,265	936,167
	TOTAL EQUITY AND LIABILITIES	1,475,225	1,332,865

1 Accounting policies
13 Contractual obligations and contingencies, etc.
14 Related parties
15 Fee to the auditors appointed by the Company in general meeting

Financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Net revaluation reserve according to the equity method	Retained earnings	Total
	Equity at 1 January 2018	1,000	23	340,372	341,395
16	Transfer, see "Appropriation of profit"	0	2,155	53,148	55,303
	Equity at 1 January 2019	1,000	2,178	393,520	396,698
16	Transfer, see "Appropriation of profit"	0	-126	48,198	48,072
	Equity at 31 December 2019	1,000	2,052	441,718	444,770

Financial statements 1 January - 31 December

Cash flow statement

Note	DKK'000	2019	2018
	Profit for the year	48,072	55,303
17	Adjustments	21,504	18,764
	Cash generated from operations (operating activities)	69,576	74,067
18	Changes in working capital	89,267	-132,844
	Cash generated from operations (operating activities)	158,843	-58,777
	Interest received, etc.	1,293	2,459
	Interest paid, etc.	-7,683	-6,551
	Income taxes paid	-15,360	-19,734
	Cash flows from operating activities	137,093	-82,603
	Additions of property, plant and equipment	-510	-332
	Cash flows to investing activities	-510	-332
	Raising of loan in the Employees' Fund for Residual Holiday Funds	2,778	0
	Cash flows from financing activities	2,778	0
	Net cash flow	139,361	-82,935
	Cash and cash equivalents at 1 January	294,063	376,998
19	**Cash and cash equivalents at 31 December**	433,424	294,063

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Arrow ECS Denmark A/S for 2019 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

Referring to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements are prepared. The financial statements of Arrow ECS Denmark A/S and its group entities are part of the consolidated financial statements of Arrow Electronics Inc.

Changes in accounting policies

With effect for the financial year 2019, the Company has chosen to implement IFRS 15 Revenue from Contracts with Customers as the basis for interpretation of the provisions of the Danish Financial Statements Act on revenue recognition. IFRS 15 replaces the current revenue standards (IAS 11 and IAS 18) with related interpretations and introduces a new model for recognizing and measuring revenue relating to sales contracts with customers.

The most significant changes in IFRS 15 in relation to previous years' accounting policies are:

- A sales transaction must be recognised as revenue in the income statement as the control (which can be done either at a specific time or over time) of the product or service is transferred to the customer. The former "risk and rewards" concept has therefore been replaced by a control concept.

- More detailed guidance on how to identify multiple sales transactions in a customer contract and how each performance obligation should be recognised and measured.

The Company has implemented IFRS 15 after the modified retrospective method. The IFRS 15 implementation via the modified retrospective method has not had an effect on the results for the year or the equity for 2019, but has affected the presentation of revenue, where revenue of DKK 1,214,819 thousand has been assessed as being revenue generated from transactions where the Company acts as an agent rather than a principal, whereby only net sales are presented as revenue. The effect is that DKK 1,163,800 thousand has been netted out from the cost of sales. The comparative figures for 2018 have not been restated.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised at cost in the balance sheet and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in "Other receivables" and "Other payables", respectively.

Fair value adjustments of derivative financial instruments designated as and qualifying for hedging of future assets or liabilities are recognised in other receivables or other payables, respectively, and in equity. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or expenses, amounts previously deferred in equity are transferred to the income statement in the period in which the hedged item affects the profit/loss for the year.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income statement

Revenue

The Company has chosen to apply IFRS 15 as interpretation of the Danish Financial Statements Act for revenue recognition.

This means that the Company uses a 5-step model for revenue recognition. According to this, the contract is identified with the customer (step 1). Subsequently, the identifiable performance obligations are identified in the contract (step 2). The total transaction price is then determined (step 3) and allocated to the identified performance obligations (step 4). Finally, revenue is recognised as the identified performance obligations are met (step 5). Revenue is recognised either at a specific time or over time upon transfer of control of what was delivered to the customer.

The Company assesses all of the Company's revenue streams in relation to proper presentation. In cases where it is assessed that the Company acts as an agent and not as a principal, the Company's revenue from this is presented net.

Revenue is measured net of all types of discounts/rebates granted. Also, revenue is measured net of VAT and other indirect taxes charged on behalf of third parties.

Other operating income and operating expenses

Other operating income and operating expenses comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of fixed assets.

Cost of sales

Cost of sales includes the cost of goods used in generating the year's revenue.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Amortisation/depreciation

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment.

The basis of amortisation, which is calculated as cost less any residual value, is amortised on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Goodwill	9-20 years

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	3-10 years

Financial statements 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In the case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Profit/loss from investments in subsidiaries

A proportionate share of the underlying entities' profit/loss after tax is recognised in the income statement according to the equity method. Shares of profit/loss after tax in subsidiaries are presented as separate line items in the income statement. Full elimination of intra-group gains/losses is made for equity investments in subsidiaries.

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

The entity is jointly taxed with other group entities. The total Danish income tax charge is allocated between profit/loss-making Danish entities in proportion to their taxable income (full absorption).

Jointly taxed entities entitled to a tax refund are reimbursed by the management company based on the rates applicable to interest allowances, and jointly taxed entities which have paid too little tax pay a surcharge according to the rates applicable to interest surcharges to the management company.

Balance sheet

Intangible assets

Goodwill is amortised over the expected economic life, measured by reference to an assessment of, among other factors, the nature and market position of the business, the stability of the industry and the dependence on key staff. The amortisation period is 9-20 years for strategically acquired companies with a strong market position and long-range earnings profile.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

Financial statements 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Investments in subsidiaries

Equity investments in subsidiaries and associates are measured according to the equity method.

On initial recognition, equity investments in subsidiaries are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method; see the accounting policies regarding business combinations.

The cost is adjusted by shares of profit/loss after tax calculated in accordance with the Group's accounting policies less or plus unrealised intra-group gains/losses.

Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies for the assets and liabilities to which they can be attributed. Negative goodwill is recognised in the income statement.

Dividend received is deduced from the carrying amount.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

Goods for resale are measured at cost, which comprises the cost of acquisition plus delivery costs as well as other expenses directly attributable to the acquisition.

Financial statements 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash comprise cash and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

Given the nature of the Group's cash pool arrangement, cash pool balances are not considered cash, but are recognised under "Receivables from group entities".

Equity

Reserve for net revaluation according to the equity method

The net revaluation reserve according to the equity method includes net revaluations of investments in subsidiaries relative to cost. The reserve can be eliminated in case of losses, realisation of investments or a change in accounting estimates. The reserve cannot be recognised at a negative amount.

Proposed dividends

Dividend proposed for the year is recognised as a liability once adopted at the annual general meeting (declaration date). Dividends expected to be distributed for the financial year are presented as a separate item under "Equity".

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Financial statements 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Other payables

Other payables are measured at net realisable value.

Cash flow statement

The cash flow statement shows the Company's net cash flows broken down according to operating, investing and financing activities, the year's changes in cash and cash equivalents as well as the cash and cash equivalents at the beginning and the end of the year.

Cash flows from operating activities are calculated as the profit/loss for the year adjusted for non cash operating items, changes in working capital and paid corporate income tax.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities and activities and of intangible assets, property, plant and equipment and investments.

Cash flows from financing activities comprise changes in the size or composition of the Company's share capital and related expenses as well as raising of loans, repayment of interest bearing debt and payment of dividends to shareholders.

Cash and cash equivalents comprise cash, short term bank loans and short term securities which are readily convertible into cash and which are subject only to insignificant risks of changes in value.

Segment information

The allocation of revenue to activities and geographical markets is disclosed where these activities and markets differ significantly in the organisation of sales of goods and services.

	DKK'000	2019	2018
2	**Revenue**		
	Net revenue		
	Gross billings	2,403,025	2,352,780
	Minus: Fee for Service (net treatment)	-1,214,819	0
	Plus: Net margin Fee for Service	51,019	0
		1,239,225	2,352,780

Segment information

The Company has not disclosed the breakdown of revenue by geographical and business segments, see section 96(1) of the Danish Financial Statements Act, as Management is of the opinion that its activities is one segment.

Financial statements 1 January - 31 December

Notes to the financial statements

	DKK'000	2019	2018
3	**Staff costs**		
	Wages/salaries	80,540	82,910
	Pensions	3,249	3,279
	Other social security costs	745	790
	Other staff costs	3,398	2,950
		87,932	89,929

	2019	2018
Average number of full-time employees	114	120

Total remuneration to Management: DKK 3,755 thousand (2018: By reference to section 98b(3), (ii), of the Danish Financial Statements Act, remuneration to Management is not disclosed).

	DKK'000	2019	2018
4	**Tax for the year**		
	Estimated tax charge for the year	13,428	15,360
	Deferred tax adjustments in the year	266	-199
	Tax adjustments, prior years	0	4
		13,694	15,165

5	**Intangible assets**	
	DKK'000	Goodwill
	Cost at 1 January 2019	19,593
	Cost at 31 December 2019	19,593
	Impairment losses and amortisation at 1 January 2019	16,993
	Amortization in the year	325
	Impairment losses and amortisation at 31 December 2019	17,318
	Carrying amount at 31 December 2019	2,275

Financial statements 1 January - 31 December

Notes to the financial statements

6 Property, plant and equipment

DKK'000	Other fixtures and fittings, tools and equipment	Leasehold improvements	Total
Cost at 1 January 2019	18,536	7,594	26,130
Additions in the year	299	211	510
Cost at 31 December 2019	18,835	7,805	26,640
Impairment losses and depreciation at 1 January 2019	17,933	6,149	24,082
Depreciation in the year	362	607	969
Impairment losses and depreciation at 31 December 2019	18,295	6,756	25,051
Carrying amount at 31 December 2019	540	1,049	1,589

7 Investments

DKK'000	Investments in group entities
Cost at 1 January 2019	5,726
Cost at 31 December 2019	5,726
Value adjustments at 1 January 2019	2,178
Share of the profit/loss for the year	-126
Value adjustments at 31 December 2019	2,052
Carrying amount at 31 December 2019	7,778

Name	Legal form	Domicile	Interest
Subsidiaries			
IPVista A/S	Private limited company	Aarhus, Denmark	100.00%

8 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years, including rent and insurance policies.

9 Receivables

Out of the Company's total receivables, trade receivables totalling DKK 1,090 thousand fall due for payment after more than one year after the balance sheet date.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2019	2018
10 Share capital		
Analysis of the share capital:		
1,000,000 shares of DKK 1.00 nominal value each	1,000	1,000
	1,000	1,000

The Company's share capital has remained DKK 1,000 thousand over the past 5 years.

DKK'000	2019	2018
11 Deferred tax		
Deferred tax at 1 January	-76	119
Deferred tax adjustment in the year, income statement	266	-195
Deferred tax at 31 December	190	-76
Deferred tax relates to:		
Intangible assets	500	572
Property, plant and equipment	-625	-809
Receivables	315	440
Liabilities	0	-279
	190	-76

12 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2019	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Other payables	2,778	0	2,778	0
	2,778	0	2,778	0

13 Contractual obligations and contingencies, etc.

Other contingent liabilities

The Company is jointly taxed with Arrow Electronics Danish Holdings ApS, which acts as management company, and is jointly and severally liable with other jointly taxed group entities for payment of income taxes as well as withholding taxes on interest, royalties and dividends.

Other financial obligations

Other rent and lease liabilities:

DKK'000	2019	2018
Rent and lease liabilities	7,029	8,123

Financial statements 1 January - 31 December

Notes to the financial statements

14 Related parties

Arrow ECS Denmark A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Arrow ECS Nordic A/S	Viby J, Denmark	Parent company
Arrow Electronics Inc.	Centennial, Colorado, USA	Ultimate parent company

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Arrow Electronics Inc.	Centennial, Colorado, USA	https://investor.arrow.com/financials/financial-results/default.aspx
Arrow Electronics EMAESA S.r.l	Milan, Italy	Viale Fulvio Testi, 280, Milan, 20126, Italy

Related party transactions

Arrow ECS Denmark A/S was engaged in the below related party transactions:

DKK'000	2019	2018
Intercompany cost of sales	2,124	932
Staff allocation in	3,009	3,052
Staff allocation out	2,841	388
Cost recharge in	28,914	24,577
Cost recharge out	5,593	5,116
Intercompany receivables	156,870	187,971
Intercompany payables	7,394	8,406

15 Fee to the auditors appointed by the Company in general meeting

Audit fees are not disclosed with reference to section 96(3) of the Danish Financial Statements Act.

DKK'000	2019	2018
16 Appropriation of profit		
Recommended appropriation of profit		
Net revaluation reserve according to the equity method	-126	2,155
Retained earnings	48,198	53,148
	48,072	55,303

Financial statements 1 January - 31 December

Notes to the financial statements

	DKK'000	2019	2018
17	**Adjustments**		
	Amortisation/depreciation and impairment losses	1,294	1,662
	Income from investments in group entities	126	-2,155
	Financial income	-1,293	-2,459
	Financial expenses	7,683	6,551
	Tax for the year	13,694	15,165
		21,504	18,764
18	**Changes in working capital**		
	Change in inventories	-40,404	-4,344
	Change in receivables	38,351	-172,087
	Change in trade and other payables	91,320	43,587
		89,267	-132,844
19	**Cash and cash equivalents at year-end**		
	Cash according to the balance sheet	432,756	153,825
	Group cash-pool (presented as 'Receivables from group entities')	668	140,238
		433,424	294,063