

# **Hitachi Europe Limited**

## **Report and Financial Statements**

31 March 2017

Registered number: 02210686

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COMPANIES HOUSE

Registered No. 02210686

**Directors**

S J Gomersall  
K Abe  
A Shimizu  
I Narukawa

**Secretary**

C W Newton

**Auditors**

Ernst & Young LLP  
The Paragon  
Counterslip  
Bristol BS1 6BX

**Bankers**

Citibank NA  
Citigroup Centre  
Canada Square  
Canary Wharf  
London EC14 5LB

**Solicitors**

Clifford Chance LLP  
10 Upper Bank Street  
London E14 5JJ

**Registered Office**

Whitebrook Park  
Lower Cookham Road  
Maidenhead  
Berkshire SL6 8YA  
United Kingdom

Registered No. 02210686

## Strategic report

The directors present their strategic report of Hitachi Europe Limited (“Hitachi Europe” or “the company”) for the year ended 31 March 2017.

### Results and dividends

The loss for the year after taxation amounted to £7,591,000 (2016 profit £5,250,000). The directors do not recommend the payment of a dividend (2016: £nil).

### Principal activities and review of the business

The company’s principal activities during the year continued to be the distribution of consumer electronic products, the import and sale of computers, other electronic equipment, and industrial components. The company also acts as a provider of shared services to other companies within the Hitachi Group.

The company used key performance indicators to measure performance. The directors consider the following indicators to be key measures of the company’s financial performance:

	2017	2016	Change
	£'000	£'000	%
Revenue	173,282	208,207	(16.8)
Gross profit	68,606	68,648	(0)
Operating (loss) / profit	(8,519)	3,915	(317.6)

The company’s revenue decreased by 16.8% from £208,207,000 in 2016 to £173,282,000 in 2017. During the current year, the terms of two key sales agreements have change substantially which resulted in change in accounting method under *IAS 18, Revenue*. It was determined that the company is acting as agent under those agreements, as such, revenue will be recognised on a net basis. The impact of this change is a reduction to both revenue and cost of sales by £75,907,000, there is no impact on gross profit.

The operating loss of £8,519,000 is primarily driven by an impairment loss related to Hitachi Air Conditioning Europe SAS investment write off which amount to £8,851,000.

### Future developments

The company intends to trade in the same manner in the forthcoming year.

### Principal risks and uncertainties

The company’s principal risk is market developments in the technology sector and possible subsequent price erosion. The company experienced challenging market conditions during the year with intense competition on pricing and market share. These are not new risks, but are managed via relationships between the company and its long-standing customer base which is maintained through high levels of customer care.

Additionally, increased pressure in terms of compliance with growing environmental regulations is a risk managed principally by the presence of a highly specialised in-house advisor who works to ensure best practice.

The company’s operations expose it to a variety of financial risks that include liquidity risk, interest rate risk, currency risk and credit risk. The policies set by the board of directors are implemented by the company’s finance department.

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## Strategic report (continued)

### Principal risks and uncertainties (continued)

**Credit risk:** The company aims to reduce any financial loss relating to the risk that a party to a financial transaction does not adhere to agreed terms and conditions by regular monitoring of customer balances by the credit control department. The company policies are aimed at minimising such losses, and require that deferred terms are only granted to customers and other Hitachi companies who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Details of the company's trade and other receivables are shown in note 17 to the financial statements.

**Liquidity risk:** The aims of the company are to control any financial risks they face from their day-to-day operations. The company aims to mitigate liquidity risk by managing cash generation by its operations. The company manages liquidity by constantly monitoring forecast and actual cash flows to ensure it has sufficient funds available to meet its operational requirements. The company also has access to longer term funding from its ultimate parent if required.

**Foreign Currency risk:** The company's functional currency is GBP however it has transactional currency exposures which arise from sales and purchases in currencies other than its functional currency, mainly Euro, US Dollar and Japanese Yen. Potential exposures to foreign currency exchange rate movements are monitored through 12 month rolling cash flow forecasts in all currencies in which the company trades. These are reviewed monthly by the finance department and appropriate actions are taken to manage net open foreign currency positions. The company also uses forward exchange contracts to minimise the risk of currency fluctuations (see note 20).

**Interest rate risk:** The company has various loans and financial liabilities. Loans and pooling deposits payable are with other Hitachi group companies. The directors consider that the interest rate risk is at an acceptable level and that no hedging of interest rates is necessary.

Approved by the board and signed on its behalf



K. Abe  
Director  
Date: 26 July 2017

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## Directors' report

The directors present their report and financial statements for the year ended 31 March 2017.

### Business Review

A review of the Company's business, future developments and principal risks is detailed further on pages 2 to 3 of the Strategic Report.

### Directors

The directors who served the company during the year and to the date of this report were as follows:

S J Gomersall	British	
K Abe	Japanese	
T Ishizuka	Japanese	Resigned 30 <sup>th</sup> June 2016
A.O.K.-D Rennert	German	Resigned 31 March 2017
A Shimizu	Japanese	Resigned 27 <sup>th</sup> April 2016 & re-appointed 1 <sup>st</sup> April 2017
S Nukui	Japanese	Appointed 27 <sup>th</sup> April 2016 & resigned 27 <sup>th</sup> April 2017
T Suzuki	Japanese	Appointed 27 <sup>th</sup> April 2016 & resigned 27 <sup>th</sup> April 2017
I Narukawa	Japanese	Appointed 27 <sup>th</sup> April 2017

### Directors' qualifying third party indemnity provision

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

### Financial risk management, objectives and policies

The company has established a risk and financial management framework whose primary objectives are 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 monitor the management of risk at a business unit level.

### Overseas Branches

The company has overseas branches in South Africa, Turkey, Poland and Denmark.

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## **Directors' report (continued)**

### **Going concern**

Hitachi Europe Limited is a direct 100% owned subsidiary of Hitachi, Ltd. a company incorporated in Japan. Hitachi Europe is the Regional Corporate Centre for Hitachi, Ltd. and also is recognised as the home for significant European businesses as well as the main provider of shared services operations for Hitachi Companies in Europe. Hitachi, Ltd. has continually demonstrated in the past a financial commitment to Hitachi Europe by funding fully the defined benefit pension deficit and by investing substantial funds for further onward investment into key European businesses.

The company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The directors, having assessed the responses of the directors of the company's parent, Hitachi, Ltd., to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of Hitachi Europe Ltd to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of Hitachi, Ltd., the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### **Research and development**

The company operates a research laboratory in Cambridge with the aim of creating new concepts of advanced electronic and optoelectronic devices.

### **Tangible fixed assets**

All fixed assets are in on-going use. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

### **Environment**

The company recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the company's activities.

### **Corporate responsibility**

The company recognises that, as part of the wider community of employees, customers, suppliers, shareholders, and others, it has a responsibility to act in a way that respects the environment and minimises any adverse impacts caused by its operations.

As a global citizen the company aims to promote innovation throughout the world while developing the potentials of the future generation to pioneer next-generation products and services.

### **Health and safety**

The company strives to provide and maintain a safe environment for all employees, customers and visitors to its premises and to comply with relevant health and safety legislation. In addition, the company aims to protect the health of employees with suitable, specific work-based strategies, seeking to minimise the risk of injury from company activity and ensure that systems are in place to address health and safety matters through the company's Health and Safety Committee. Compliance with the company policy is monitored centrally and an annual health and safety report is produced for the Board.

Health and safety risk assessments have been carried out and additional actions and controls have been implemented and training conducted to ensure that employees can carry out their functions in a safe and effective manner.

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## **Directors' report (continued)**

### **Disabled employees**

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

### **Employee involvement**

The company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2005. During the year, the policy of providing employees with information about the company has been continued through a companywide quarterly newsletter which provides information on current business activities. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

### **Disclosure of information to the auditors**

Each of the persons who are a Director at the date of approval of this report confirms that:

1. so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2. the Director has taken all the steps that he or she ought to have taken as a Director in order to make him or herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s.418 of the Companies Act 2006.

### **Auditors**

A resolution to reappoint Ernst & Young LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the board and signed on its behalf



K. Abe  
Director  
Date: 26 July 2017

Registered No. 02210686

## **Statement of directors' responsibilities**

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable United Kingdom 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 of 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 UK 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.



# **Independent auditors' report**

## **to the members of Hitachi Europe Limited**

We have audited the financial statements of Hitachi Europe Limited for the year ended 31 March 2017 which comprise the Statement of Profit and Loss, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 27. 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 "Reduced Disclosure Framework".

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 Director's Responsibilities Statement set out on page 7, 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 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 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; 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 Hitachi Europe 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

Ken Griffin (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Bristol

7 August 2017

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**Statement of profit and loss**

for the year ended 31 March 2017

	Notes	2017 £000	2016 £000
<b>Turnover</b>			
Sale of goods		104,755	143,625
Rendering of services		67,551	64,104
Rental income	25	976	478
	3	173,282	208,207
Cost of sales		(104,676)	(139,559)
<b>Gross profit</b>		68,606	68,648
Distribution costs		(22,226)	(25,769)
Administration expenses		(46,555)	(39,252)
Pension (expense)	24	(386)	(557)
Other operating expenses	5	(9,461)	-
Other operating income	6	1,503	845
<b>Operating (loss) / profit</b>	4	(8,519)	3,915
Finance and other similar income	8	2,008	2,166
Finance and other similar costs	9	(1,080)	(1,368)
<b>(Loss)/Profit before taxation</b>		(7,591)	4,713
Tax credit	12	-	537
<b>(Loss)/Profit for the financial year</b>		(7,591)	5,250

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## Statement of comprehensive income

for the year ended 31 March 2017

		2017	2016
	Notes	£000	£000
(Loss) / profit for the financial year		(7,591)	5,250
<b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</b>			
Actuarial gain in respect of defined benefit pension scheme	24	332	308
Total comprehensive (loss)/profit for the year, net of tax		<u>(7,259)</u>	<u>5,558</u>

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**Statement of changes in equity****for the year ended 31 March 2017**

	<i>Issued capital £000</i>	<i>Cash Flow Hedge £000</i>	<i>Retained losses £000</i>	<i>Total Equity £000</i>
As at 1 April 2015	251,141	49	(84,669)	166,521
Profit for the year	-	-	5,250	5,250
Other comprehensive gain	-	-	308	308
Transfer from OCI to P&L	-	(49)	49	-
Total comprehensive income	251,141	-	(79,062)	172,079
Issue of share capital	6,208	-	-	6,208
At 31 March 2016	257,349	-	(79,062)	178,287
Loss for the year	-	-	(7,591)	(7,591)
Other comprehensive gain	-	-	332	332
Total comprehensive income	257,349	-	(86,321)	171,028
Issue of share capital	6,000	-	-	6,000
At 31 March 2017	263,349	-	(86,321)	177,028

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**Statement of financial position**

as at 31 March 2017

	<i>Notes</i>	<i>2017</i> <i>£000</i>	<i>2016</i> <i>£000</i>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	26,054	25,399
Intangible assets	14	178	41
Investments	15	48,140	141,010
Other non-current financial assets	19	39,294	-
		<u>113,666</u>	<u>166,450</u>
<b>Current assets</b>			
Inventories	16	14,483	13,028
Trade and other receivables	17	60,931	58,079
Prepayments and accrued income		776	1,696
Other current financial assets	19	439,186	424,890
Corporation tax		112	121
Cash and cash equivalents		5,124	4,020
		<u>520,612</u>	<u>501,834</u>
<b>Total assets</b>		<u><b>634,278</b></u>	<u><b>668,284</b></u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Issued capital	22	263,349	257,349
Retained losses		(86,321)	(79,062)
<b>Total equity</b>		<u>177,028</u>	<u>178,287</u>
<b>Non-current liabilities</b>			
Provisions	21	1,236	1,236
Employee benefit liabilities	24	-	5,946
		<u>1,236</u>	<u>7,182</u>
<b>Current liabilities</b>			
Trade and other payables	18	79,331	58,598
Other current financial liabilities	19	375,319	422,859
Provisions	21	1,364	1,358
		<u>456,014</u>	<u>482,815</u>
<b>Total liabilities</b>		<u>457,250</u>	<u>489,997</u>
<b>Total equity and liabilities</b>		<u><b>634,278</b></u>	<u><b>668,284</b></u>

Approved by the Board and signed on its behalf



K. Abe  
Director  
Date: 26 July 2017

## Notes to the financial statements

at 31 March 2017

### 1. Accounting policies

#### *Corporate information*

The financial statements of Hitachi Europe Limited for the year ended 31 March 2017 were authorised for issue in accordance with a resolution of the directors. Hitachi Europe Limited is a limited company incorporated and domiciled in England & Wales. The registered office is located at Whitebrook Park, Lower Cookham Road, Maidenhead SL6 8YA in England.

#### *Basis of preparation*

The financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework".

The financial statements have been prepared on a going concern and historical cost basis, except for derivative financial instruments that have been measured at fair value. The financial statements are presented in GBP and all values are rounded to the nearest thousand (£000), except when otherwise indicated.

#### *First time adoption of FRS 101*

These financial statements, for the year ended 31 March 2017, are the first the Company has prepared in accordance with FRS 101. For periods up to and including the year ended 31 March 2016, the Company prepared its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

Accordingly, the Company has prepared financial statements which comply with FRS 101 applicable for periods ending on or after 31 December 2015, together with the comparative period data as at and for the year ended 31 March 2016, as described in the accounting policies. In preparing these financial statements, the Company's opening balance sheet was prepared as at 1 April 2015, the Company's date of transition to FRS 101.

In the course of transitioning to FRS 101, the directors concluded that no adjustments were necessary in terms of recognition and measurement of the assets and liabilities of the Company either at 1 April 2015 or at 31 March 2016. Accordingly, the directors do not consider it necessary to present any further reconciliation of these initial FRS 101 financial statements to previously published financial statements.

#### *FRS 101 disclosure exemptions*

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

- (a) the requirements of IFRS 7 Financial Instruments: Disclosures;
- (b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- (c) 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;
- (d) the requirements of paragraphs 10 (d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- (e) the requirements of IAS 7 Statement of Cash Flows. The company is exempt from preparing a cash flow statement as a group cash flow statement is prepared by its ultimate parent company.
- (f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;

## Notes to the financial statements

at 31 March 2017

### 1. Accounting policies (continued)

#### *FRS 101 disclosure exemptions (continued)*

(h) 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

(i) the requirements of paragraphs 134 (d) - 134(f) and 135(c) - 135(e) of IAS 36 Impairment of Assets

#### *Group financial statements*

The company is exempt, by virtue of s401 of the Companies Act, from the requirement to prepare group financial statements as it is a wholly owned subsidiary of Hitachi Limited, a company incorporated in Japan, and is included in the publicly available consolidated financial statements of this entity. The financial statements are available at the address stated in note 27. Therefore, these financial statements present information about the company and not its group.

#### *Segmental analysis*

Hitachi Europe Limited operates in competitive international markets and information on competitor activity is not available. In the opinion of the directors, disclosure of the information required by the Companies Act 2006 would be harmful to the interests of the company.

#### *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, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

##### *Sale of goods*

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 delivery of the goods.

##### *Rental income*

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms and is included in revenue due to its operating nature.

##### *Service revenue*

Revenue from the provision of shared services is recognised on accrual basis based on the agreed contract value.

##### *Interest income*

Interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

#### *Investments in subsidiaries and associates*

Investments in subsidiaries and associates held as fixed assets are stated at cost less amounts provided. The carrying values of fixed asset investments are reviewed for impairment on an annual basis and when there are events or changes in circumstances which indicate that the carrying value may not be recoverable.



## Notes to the financial statements

at 31 March 2017

### 1. Accounting policies (continued)

#### *Intangible assets*

Software intangibles are stated at cost, net of accumulated amortisation. The useful lives of software intangibles are as follows:

Computer software – 3 years (straight line)

#### *Property, plant and equipment*

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Depreciation is provided to write off the costs less the estimated residual value of assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	– 50 years
Structures	– 15 years (or lesser of life of lease)
Machinery	– 5 years
Motor vehicles	– 3 years
Tools, furniture and fixtures	– 5 years

No depreciation is provided on freehold land or assets in the course of construction.

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

Borrowing costs related to tangible fixed assets are expensed in the period they are incurred.

#### *Foreign currencies*

The financial statements are presented in British Pounds, which is also the company's functional currency. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Transactions in foreign currencies are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The company uses forward foreign currency contracts to reduce exposure to fluctuating foreign exchange rates. The company considers these derivative instruments qualify for hedge accounting when certain criteria are met as follows:

- a) The instrument must be related to a firm foreign currency commitment;
- b) It must involve the same currency as the hedged item, and
- c) It must reduce the risk of foreign currency exchange movements on the company's operations.

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial liabilities, or where the instrument is used to hedge a future committed transaction, are not recognised until the transaction occurs.

Gains and losses on derivative financial instruments designated as cash flow hedges and assessed as effective for the period are recognised in other comprehensive income and creates a reserve in equity in accordance with the requirements of IAS 39. Gains and losses taken to equity are reflected in the statement of profit and loss when the financial asset or liability affects the profit or loss.

## Notes to the financial statements

at 31 March 2017

### 1. Accounting policies (continued)

#### *Taxation*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The charge for taxation is based on the results for the year and takes into account taxation deferred because of temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying values.

Deferred taxation is recognised using the balance sheet liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying values. Deferred income taxation is determined using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date and are expected to apply when the related deferred tax asset or liability is realised or settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax balances are not discounted.

Revenue, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables are stated with the amount of sales tax included

#### *Leasing commitments*

All of the company's leases are 'operating leases' and the rental amounts are charged to the profit and loss account on a straight line basis over the life of the lease.

Rental income under operating leases is recognised on a straight line basis over the period of the lease.

#### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	– Weighted average
Work in progress and finished goods	– Cost of direct materials and labour plus attributable overheads based on a normal level of activity

In respect of spare parts, the cost is determined on a FIFO basis and then a provision is made to write off each product line over its estimated technological life.

Net realisable value is based on estimated selling price in the ordinary course of business, less all further costs to completion and all relevant marketing, selling and distribution costs.

#### *Impairment of non-financial assets*

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the company estimates the asset's value in use (recoverable amount). It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its value in use, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

## Notes to the financial statements

at 31 March 2017

### 1. Accounting policies (continued)

#### *Cash and short-term deposits*

Cash and short-term deposits in the statement of financial position comprise cash at bank and on hand and short-term deposits with a maturity of three months or less.

#### *Provisions*

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### *Warranty provisions*

Provision for warranty cost is made either by a cost accrual or turnover deferral at the time of sale. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

#### *Financial instruments*

##### (a) Financial assets

#### *Initial recognition and measurement*

Financial assets within the scope of IAS 39 are all classified as financial assets at fair value through profit or loss (FVTPL) or loans and receivables as appropriate. The company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss and investments in subsidiaries carried at historical cost.

#### *Financial assets at FVTPL*

Financial assets are classified as FVTPL when they are acquired principally for the purpose of selling in the near term.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at cost less impairment. The losses arising from impairment are recognised in the income statement in finance costs for loans and in operating expenses for receivables.

#### *De-recognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through arrangement; and either (a) the company has transferred substantially all the risks and rewards of the assets, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

##### (b) Impairment of financial assets

The company assesses at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable

## Notes to the financial statements

at 31 March 2017

### 1. Accounting policies (continued)

#### *Financial instruments (continued)*

decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

#### (c) Financial liabilities

##### *Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial liabilities at initial recognition.

The company's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings and derivative financial instruments.

##### *Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective rate of interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

##### *Financial guarantee contracts*

Financial guarantee contracts issued by the company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment in accordance with the terms of a debt instrument. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance agreements, and accounts for them as such. In this respect the Company treats the guarantee contract as a contingent liability until such time when it becomes probable that the Company will be required to make a payment under the contract.

##### *De-recognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

#### (d) Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### *Pension costs*

The company operates a number of pension schemes. The assets of the schemes are held separately from those of the company.

Pension scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension scheme assets are measured using market values at the balance sheet date.

## Notes to the financial statements

at 31 March 2017

### 1. Accounting policies (continued)

#### *Pension costs (continued)*

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

The company also operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

#### *Government grants*

Government grants are recognised initially in the balance sheet as deferred income when there is reasonable assurance that the company will comply with the conditions attached to them and that the grants will be received.

Government grants are recognised in profit or loss as other income on a systematic basis over the periods in which the company recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs are recognised in profit or loss in the period in which they become receivable.

### 2. Significant accounting estimates and assumptions

The preparation of the company's financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the accompanying disclosure. Uncertainty about these assumptions and estimates could result in an outcome that requires a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### *Pension benefits*

The cost of defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

## Notes to the financial statements

at 31 March 2017

### 3. Turnover

Revenue, which is stated net of Value Added Tax and is in respect of continuing operations, represents the amounts derived from the provision of services which fall within the company's ordinary activities.

Sales from continuing activities by destination are as follows:

	2017 £000	2016 £000
UK	33,749	71,970
Other Western Europe	71,630	77,699
Eastern Europe	51	25
The Near and Middle East	7,995	7,289
Africa	327	3,965
Japan	47,267	39,053
Russia	660	453
Rest of the world	11,603	7,753
	<u>173,282</u>	<u>208,207</u>

During the year all revenue was derived from the sale of goods and services for cash and from entrustment revenue from the parent company.

### 4. Operating loss

Loss for the year has been arrived at after charging/crediting:

	2017 £000	2016 £000
Included in distribution and administrative expenses:		
Auditors' remuneration – audit of the financial statements	210	234
Depreciation – tangible assets	1,088	1,096
Amortisation – intangible assets	34	68
Depreciation – investment property	-	214
Rentals payable under operating leases	624	667
Research and development expenditure	207	951
Net foreign currency loss / (gain)	438	(1,354)

### 5. Other operating expenses

	2017 £000	2016 £000
Write down of investment	8,852	-
Restructuring costs	432	-
Other	177	-
	<u>9,461</u>	<u>-</u>

## Notes to the financial statements

at 31 March 2017

### 6. Other operating income

	2017	2016
	£000	£000
R&D tax credit	697	-
Government grants (note 7)	399	-
Dividend received	-	360
Tax audit provision release	-	195
Write off of historic AR credit balances	-	145
Other	407	145
	<u>1,503</u>	<u>845</u>

### 7. Government grants

	2017	2016
	£000	£000
At 1 April	592	578
Cash received	540	643
Cash paid out to grant partners	(619)	(346)
Amount released to the statement of profit or loss	<u>(399)</u>	<u>(283)</u>
	<u>114</u>	<u>592</u>

The company receives government grants on behalf of the grant partners which are redistributed during the financial year.

### 8. Finance and other similar income

	2017	2016
	£000	£000
Interest income	6	63
Interest income from group companies	<u>2,002</u>	<u>2,103</u>
	<u>2,008</u>	<u>2,166</u>

### 9. Finance and other similar costs

	2017	2016
	£000	£000
Interest on debts and borrowings	3	66
Interest payable to group companies	<u>1,077</u>	<u>1,302</u>
	<u>1,080</u>	<u>1,368</u>

## Notes to the financial statements

at 31 March 2017

### 10. Directors' emoluments

	2017 £000	2016 £000
Directors' emoluments	901	1,363
Directors' defined contributions (pension)	-	-
	<u>901</u>	<u>1,363</u>

The bonus elements included within the emoluments were £157,474 (2016 –£206,707). No directors accrued benefits from any defined benefit pension scheme in Japan or from the Hitachi UK Pension Scheme (2016 –nil).

The emoluments of the highest paid director were £350,587 (2016 –£748,670). There were no pension contributions paid relating to the highest paid director.

### 11. Employee benefit expenses

	2017 £000	2016 £000
Wages and salaries	28,433	30,164
Social security costs	1,960	1,829
Other pension costs	753	877
	<u>31,146</u>	<u>32,870</u>

Pension costs of £753,000 (2016 –£877,000) are in respect of the defined contribution scheme.

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

	2017 No.	2016 No.
Sales	121	100
Administration	176	187
	<u>297</u>	<u>287</u>

### 12. Tax

(a) Tax on loss on ordinary activities

The Tax charge is made up as follows:

	2017 £000	2016 £000
UK Corporation tax at 20% (2016: 20%)	-	233
Adjustment in respect of previous year	-	(792)
	-	(559)
Foreign tax	-	22
Total tax (note 12 (b))	<u>-</u>	<u>(537)</u>



## Notes to the financial statements

at 31 March 2017

### 12. Tax (continued)

#### (b) Factors affecting the total tax charge

The tax assessed on the loss on ordinary activities for the year is lower (2016 – the same) than the standard rate of corporation tax in the UK of 20% (2016 – 20%). The differences are reconciled below:

	2017 £000	2016 £000
(Loss) / profit on ordinary activities before tax	(7,591)	4,713
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016: 20%)	(1,518)	943
Effects of:		
Expenses not deductible for tax purposes	1,866	95
Non-taxable income	-	(72)
Movement in unrecognised deferred tax	(348)	(733)
Tax loss utilised in the year	-	-
Adjustments in respect of previous periods	-	(792)
Difference in overseas tax rates	-	22
Current year tax charge on non-trading income	-	-
Total tax (note 12(a))	-	(537)

#### (c) Deferred tax

Analysis of deferred tax

	2017 £000	Unrecognized 2016 £000
Depreciation and capital allowances	4,521	936
Tax losses available	13,057	12,303
Other timing differences	(8)	1,186
Deferred tax asset	17,570	14,425

A deferred tax asset of £17,570,000 (2016 –£14,425,000) has not been recognised in respect of these losses and other timing differences because at present it is uncertain when there will be sufficient taxable profits in the company against which these losses can be offset.

#### (d) Factors that may affect future tax charges

The UK government announced further reductions in the main rate of UK Corporation Tax, which falls to 19% with effect from 1 April 2017 and 17% from 1 April 2020. The effect of these rate changes is not expected to have a material effect on the tax balances of the company at 31 March 2017.

## Notes to the financial statements

at 31 March 2017

### 13. Tangible fixed assets

	<i>Land</i>	<i>Freehold property</i>	<i>Structures</i>	<i>Plant and machinery</i>	<i>Tools, furniture &amp; fixings</i>	<i>Total tangible assets</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:						
At 31 March 2016	12,000	35,101	897	5,946	524	54,468
Additions	-	335	879	368	185	1,767
Disposals	-	-	-	(617)	(48)	(665)
At 31 March 2017	<u>12,000</u>	<u>35,436</u>	<u>1,776</u>	<u>5,697</u>	<u>661</u>	<u>55,570</u>
Depreciation and impairment:						
At 31 March 2016	-	22,736	549	5,356	428	29,069
Depreciation charge for the year	-	505	119	395	69	1,088
Disposal	-	-	-	(593)	(48)	(641)
At 31 March 2017	<u>-</u>	<u>23,241</u>	<u>668</u>	<u>5,158</u>	<u>449</u>	<u>29,516</u>
Net book value:						
At 31 March 2016	<u>12,000</u>	<u>12,365</u>	<u>348</u>	<u>590</u>	<u>96</u>	<u>25,399</u>
At 31 March 2017	<u>12,000</u>	<u>12,195</u>	<u>1,108</u>	<u>539</u>	<u>212</u>	<u>26,054</u>

### 14. Intangible fixed assets

	<i>Computer software</i>
	<i>£000</i>
Cost:	
At 31 March 2016	1,372
Additions	171
Disposals	(20)
At 31 March 2017	<u>1,523</u>
Amortisation:	
At 31 March 2016	1,331
Amortisation charge for the year	34
Disposals	(20)
At 31 March 2017	<u>1,345</u>
Net book value:	
At 31 March 2016	<u>41</u>
At 31 March 2017	<u>178</u>

## Notes to the financial statements

at 31 March 2017

### 15. Investment in subsidiaries and associates

	<i>Interests in subsidiary undertakings</i>	<i>Other investments</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:			
At 31 March 2016	325,979	2,451	328,430
Additions	20		20
Disposals	(92,890)	-	(92,890)
Transfer	(11,000)	-	(11,000)
At 31 March 2017	222,109	2,451	224,560
Provisions:			
At 31 March 2016	185,170	2,250	187,420
Additions	-	-	-
Disposals	-	-	-
Transfer	(11,000)	-	(11,000)
At 31 March 2017	174,170	2,250	176,420
Net book value:			
At 31 March 2016	140,809	201	141,010
At 31 March 2017	47,939	201	48,140

During FY2017 Hitachi Europe Limited sold its investment in Hitachi Rail Europe Ltd (HRE) for the carrying book value of £83,999,000 to Hitachi, Ltd. (Japan) and its investment in Hitachi Visaginas Project Investment UK Ltd for the carrying book value of £40,000 to Hitachi Nuclear Projects Development Europe Ltd.

The remainder of the disposals in subsidiaries relates to the write down of the company's investment in Hitachi Europe SAS (HESAS) by £8,852,000 as a result of the divestiture of Hitachi Air Conditioning Europe SAS in HESAS.

The transfer of £11,000,000 from provisions to cost relates to the impairment provision provided against the company's investment in HESAS as a result of the disposal of Hitachi Air Conditioning Europe SAS.

Other investments comprise an investment in an associated company Hitachi Automotive Products Europe, which is fully provided for, an investment in The Randpark Club, in South Africa and a 5% holding in Hitachi Plant Saudi Arabia

At 31 March 2017, the company held the following interests either directly or indirectly through its subsidiaries:

## Notes to the financial statements

at 31 March 2017

### 15. Investment in subsidiaries and associates (continued)

	<i>Country of registration or incorporation</i>	<i>Class and percentage of shares held</i>	<i>Principal activities</i>
Hitachi Europe GmbH	Germany	100% ordinary	Marketing of consumer electronic products, air conditioning equipment and industrial equipment
Hitachi Europe SAS	France	100% ordinary	Marketing of consumer electronics products
Hitachi Europe SA	Greece	100% ordinary	Marketing of consumer electronics products
Hitachi Europe Srl	Italy	100% ordinary	Marketing of consumer electronic products and air conditioning equipment
Hitachi Europe SA	Spain	100% ordinary	Marketing of consumer electronic products and air conditioning equipment
Hitachi Information Control Systems Europe Limited	England and Wales	100% ordinary	Consultancy services to the rail industry
Hitachi Power Europe GmbH	Germany	26% ordinary	Provision of Power Generation Engineering
Hitachi Automotive Systems UK Limited	England & Wales	25% ordinary	Manufacture of Automotive Products
Hitachi Industrial Engineering EMEA Srl ***	Italy	100% ordinary	Engineering company
Hitachi Drives & Automation GmbH*	Germany	51% ordinary	Marketing of industrial inverters
Hitachi Drives & Automation (Italy) Srl*	Italy	42.49% ordinary	Marketing of industrial inverters
Hiflex Automatiseringstechniek BV*	Netherlands	30% ordinary	Supplier of industrial automation
Hitachi Plant Saudi Arabia	Saudi Arabia	5% ordinary	Technology Solutions

\* held indirectly

## Notes to the financial statements

at 31 March 2017

### 16. Inventory

	2017	2016
	£000	£000
Finished goods and goods for resale	12,482	11,614
Inventory in transit	4,059	2,885
Inventory provision	(2,058)	(1,471)
	<u>14,483</u>	<u>13,028</u>

The difference between purchase price or production cost of inventory and their replacement cost is not material.

### 17. Trade and other receivables

	2017	2016
	£000	£000
Trade receivables	37,143	28,786
Amounts owed by group undertakings	3,278	5,622
Other taxes and social security	3,474	5,681
Non trade receivables*	15,983	16,513
Other receivables	1,053	1,477
	<u>60,931</u>	<u>58,079</u>

\* Non trade receivables are primarily made up of amounts owed by parent company for entrustment revenue and other companies within the Hitachi Group for shared service activities provided by Hitachi Europe Ltd.

### 18. Trade and other payables

	2017	2016
	£000	£000
Trade payables – third party	21,266	14,770
Amounts owed to group undertakings	25,770	18,341
Accruals	20,289	21,071
Other taxes and social security costs	2,775	894
AR advance payments*	5,068	-
Other payables	4,163	3,522
	<u>79,331</u>	<u>58,598</u>

\*AR advance payments relates to cash received in advance from Hitachi Rail Europe Ltd related to duty deferment.

## Notes to the financial statements

at 31 March 2017

### 19. Other financial assets and financial liabilities

*Other financial assets are analysed as follows:*

	2017 £000	2016 £000
Financial assets at fair value through profit or loss:		
Foreign currency forward contracts	-	-
Total assets at fair value through profit or loss	-	-
Loan notes, owed by group undertakings:		
due within one year	439,186	424,890
due within 1-2 years	39,294	-
Total other financial assets	478,480	424,890

Interest from loan notes owed by group undertakings is receivable at a rate of LIBOR +40 basis points.

	2017 £000	2016 £000
Financial liabilities at fair value through profit or loss:		
Derivatives not designated as hedges	-	-
Foreign currency forward contracts	-	-
Total liabilities at fair value through profit or loss	-	-
Current interest-bearing loans owed to group undertakings:		
Wholly repayable within one year	375,319	422,859
Total other financial liabilities	375,319	422,859

Interest from loans owed to group undertakings is payable at a rate of LIBOR +40 basis points.

The carrying amounts of other financial assets and liabilities are a reasonable approximation of fair value.

The company's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the company. These risks include foreign currency risk, credit risk, and liquidity risk.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

## Notes to the financial statements

at 31 March 2017

### 19. Other financial assets and financial liabilities (continued)

#### Foreign currency risk

The company undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	<i>Liabilities</i>		<i>Assets</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Euro	226,768	387,151	226,484	377,501
USD	39,256	60,295	40,208	57,559
JPY	13,012	19,711	10,432	15,437
Other	10,755	348	1,506	7,054

### 20. Financial risk management objectives and policies

#### Foreign currency sensitivity

The following table demonstrates the company's sensitivity to a 5 per cent increase and decrease in Sterling against Euro, USD and Japanese Yen, with all other variables held constant. The sensitivity analysis includes only outstanding Euro, USD and Japanese Yen denominated monetary items and adjusts their translation at the period end for the percentage change. A positive number below indicates an increase in profit and other equity where Sterling strengthens 5 per cent against these currencies. For a 5 per cent weakening of Sterling against these currencies, there would be a comparable impact on the profit and the balance below would be negative. The company's exposure to foreign currency changes for currencies other than Euro, USD and Japanese Yen is not material.

	<i>Change in rate</i>	<i>Effect on profit before tax</i>	<i>Effect on profit before tax</i>
		<i>2017</i>	<i>2016</i>
		<i>£000</i>	<i>£000</i>
EUR	+5%	14	460
	-5%	(15)	(508)
USD	+5%	(45)	130
	-5%	50	(144)
JPY	+5%	123	204
	-5%	(136)	(225)

## Notes to the financial statements

at 31 March 2017

### 20. Financial risk management objectives and policies (continued)

#### *Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The company uses independent rating agencies where available, to assess the creditworthiness of its counterparties. Where official ratings are not available, the company uses other publicly available financial information and its own trading records to rate its major customers. The credit ratings of its counterparty are continuously monitored and the credit exposure is controlled by counterparty limits that are reviewed annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. The requirement for impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 19.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings as assigned by international credit-rating agencies.

#### *Liquidity risk*

The board of directors has established an appropriate liquidity risk management framework for the management of the company's short-, medium- and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and loan facilities by continuously monitoring forecast and actual cash flows. The company is also guaranteed through support from its parent company.

### 21. Provisions for liabilities

	<i>Product guarantee</i>	<i>Other</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 April 2016	1,039	1,555	2,594
Utilised during the year	(894)	(319)	(1,213)
Additional amounts provided	1,015	204	1,219
At 31 March 2017	<u>1,160</u>	<u>1,440</u>	<u>2,600</u>
Current	1,160	204	1,364
Non-current	-	1,236	1,236

#### *Product guarantee provision*

This provision relates to expected claims under guarantees given on certain products sold by the company. The guarantee periods range between one and three years and related expenditure will be incurred within three years of the balance sheet date.

#### *Other provision*

Included in other provisions is a business reorganisation provision. The impact of discounting on non-current provision is negligible.



## Notes to the financial statements

at 31 March 2017

### 22. Authorised and issued share capital

<i>Authorised, Allotted, called up and fully paid</i>	<i>No.</i>	<i>2017</i>	<i>No.</i>	<i>2016</i>
		<i>£000</i>		<i>£000</i>
Ordinary shares of £1 each	263,348,621	<u>263,349</u>	257,348,621	<u>257,349</u>

On the 7<sup>th</sup> July 2016, 6,000,000 ordinary shares with aggregate nominal value of £6,000,000 were issued for cash at £1.00 each.

### 23. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £6,913,756 (2016 – £4,493,616). These relate to committed purchase orders at the year end date for goods and services to be provided in the next financial year.

### 24. Pensions

#### *Defined contribution scheme*

The company operates a defined contribution pension scheme. Company contributions to the scheme in the year to 31 March 2017 were £782,339 (2016 – £876,852). There were no unpaid amounts at 31 March 2017 (2016 – £nil).

#### *Defined benefit plan*

The company participates in the Hitachi Pension Scheme (the Scheme), a funded defined benefit pension plan, which provides benefits based on final pensionable pay. Historically, contributions were charged to the profit and loss as to spread the cost of pensions over employees' working lives with the company. The Scheme closed to future accrual on 1 July 2011. The assets of the Scheme are held separately from the company in an independently administered trust fund. The contributions are determined based on the advice of independent qualified actuaries on the basis of triennial valuations.

#### *IAS 19R*

The results from the actuarial valuation of the Scheme as at 1 April 2013 were updated to 31 March 2017 by a qualified actuary, using a set of assumptions consistent with those required under IAS 19R.

Weighted average assumptions used to determine defined benefit obligation at the end of year:

	<i>2017</i>	<i>2016</i>
Discount rate	2.55%	3.70%
Rate of salary increase	n/a	n/a
Rate of retail price inflation	3.45%	3.30%
Rate of consumer price inflation	2.45%	2.30%
Rate of pension increases in payment (weighted average)	2.45%	2.25%
Post-retirement mortality assumption:		
Base table	95% of SAPS	95% of SAPS
Projections for future improvements	CMI 2015	CMI 2012
	Projections, long term trend rate of 1.25% p.a., year of birth projections	Projections, long term trend rate of 1.50% p.a., year of birth projections

## Notes to the financial statements

at 31 March 2017

### 24. Pensions (continued)

#### Funded Status

The funded status at the end of the year, and the related amounts recognised on the balance sheet as follows:

#### *Funded status, end of year:*

	2017	2016
	£000	£000
Fair value of plan assets	229,740	185,820
Benefit obligations	(189,480)	(151,571)
Funded status	40,260	34,249
Unrecognised surplus	(40,260)	(40,195)
Net amount recognised, end of year	-	(5,946)

#### *Amounts recognised in the balance sheet consist of:*

	2017	2016
	£000	£000
Noncurrent asset	40,260	34,249
Unrecognised surplus	(40,260)	(40,195)
	-	(5,946)

#### *Change in defined benefits obligation:*

	2017	2016
	£000	£000
Benefit obligations, beginning of year	151,571	157,949
Interest cost	5,490	5,434
Actuarial loss/(gain) arising from changes in financial assumptions	45,407	(6,406)
Actuarial loss/(gain) arising from changes in demographic assumptions	(6,508)	-
Experience loss	1,971	-
Gross benefits paid	(8,451)	(5,406)
Benefit obligation, end of year	189,480	151,571

## Notes to the financial statements

at 31 March 2017

### Pensions (continued)

#### Change in Plan Assets

	2017 £000	2016 £000
Fair value of plan assets, beginning of year	185,820	181,095
Interest income	6,917	6,396
Employer contribution	6,000	6,010
Experience gain/(loss)	39,780	(1,976)
Administration expenses	(326)	(299)
Gross benefits paid	(8,451)	(5,406)
Fair value of plan assets, end of year	<u>229,740</u>	<u>185,820</u>

#### Plan Asset Allocation, End of Year

	2017 £000	2016 £000
Equity securities	47,795	36,231
Indexed-linked Gilts	122,577	100,876
Corporate Bonds	57,804	48,284
Other	1,564	429
Total	<u>229,740</u>	<u>185,820</u>

### Risks

The main risks to which the company is exposed in relation to the Scheme are:

- Mortality risk – the assumptions adopted by the company make allowance for the future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the Scheme and consequently increases in the Scheme's liabilities, the company and the Scheme's Trustees review the mortality assumption on a regular basis to minimise the risk of using an inappropriate assumption.
- Investment risk – the Scheme invests its assets in a portfolio of asset classes. There is a residual risk that as the selected portfolio matures, there is the possibility of not being able to reinvest the assets at the assumed rates. The Scheme's Trustees review the structure of the portfolio on a regular basis to minimise these risks.
- Inflation risk – Increases to benefits in the Scheme are linked to inflation, and so if inflation is greater than expected, the liabilities will increase.

## Notes to the financial statements

at 31 March 2017

### 24. Pensions (continued)

#### *Sensitivity Analysis*

Sensitivity analysis figures provided by the Actuary are based on various assumptions and current market conditions and as such are likely to change over time.

<i>Sensitivity</i>	<i>Increase in Liabilities</i> £000
Increase discount rate by 0.5%	20,567
Increase inflation rate by 0.5%	11,270
Life expectancies increase by 1 year	6,103

#### *Components of benefit cost recognised in income statement*

	<i>2017</i> £000	<i>2016</i> £000
Net interest cost on net defined assets	60	258
Administration expenses	326	299
Past service credit recognised	-	-
Net benefit cost in income statement	<u>386</u>	<u>557</u>

#### *Amounts recognised in other comprehensive income*

	<i>2017</i> £000	<i>2016</i> £000
Actuarial losses arising from changes in assumptions	38,899	(6,406)
Experience (gain) / loss on liabilities	1,971	-
Experience (gain)/loss on assets	(39,780)	1,976
Effect of asset ceiling	(1,422)	4,122
Gain recognised in other comprehensive income	<u>(332)</u>	<u>(308)</u>
Cumulative actuarial loss recognised in other comprehensive income	<u>49,719</u>	<u>50,050</u>

#### **Expected employer contributions**

The Company is currently committed to pay no contributions to the Scheme in the year to 31 March 2018.

## Notes to the financial statements

at 31 March 2017

### 25. Other financial commitments

At 31 March 2017 the company had the following minimum future rentals under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>		<i>Vehicles</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases:				
Within one year	587	520	96	146
In two to five years	3,322	1,474	32	137
In over five years	1,874	1,019	-	-
	<u>5,783</u>	<u>3,013</u>	<u>128</u>	<u>283</u>

#### *Operating lease agreements where the company is lessor*

Rental expected to be received under operating leases are as follows:

	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>
Within one year	969	478
In two to five years	3,825	1,844

All property rentals are under operating leases which are cancellable within one year.

### 26. Guarantees and other financial commitments

The company has given bonds and guarantees to Customs authorities in Europe in the normal course of trading which amounted to at 31 March 2017 £6,941,444 (2016 –£6,960,418). In addition, the company had import letters of credit in place with the Bank of Tokyo-Mitsubishi totalling £3,759,421 at 31 March 2017 (2016 - £2,319,030), and with Citibank £4,233,608 (2016 – nil)

### 27. Ultimate parent company

The direct and ultimate parent undertaking of the group which includes the company and for which group financial statements are prepared is Hitachi, Ltd., a company registered in Japan. The group financial statements of this group are available to the public and may be obtained from:

Hitachi, Ltd.  
1-6-6, Marunouchi  
Nihonseimei Marunouchi Building  
Chiyoda-Ku  
Tokyo 100-8280  
Japan