

Hitachi Europe Limited

Report and Financial Statements

31 March 2018

Registered number: 02210686

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COMPANIES HOUSE

Registered No. 02210686

Directors

Y Ogura
S J Gomersall
N Nishida
S K Pierce
Y Ito

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 2018.

Results and dividends

The profit for the year after taxation amounted to £6,840,000 (2017 loss £7,591,000). The directors do not recommend the payment of a dividend (2017: £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:

	2018 £'000	2017 £'000	Change %
Revenue	149,965	173,282	(14%)
Gross profit	66,799	68,606	(4%)
Operating profit / (loss)	3,680	(8,519)	151%

The company’s revenue decreased by 14% from £173,282,000 in 2017 to £149,965,000 in 2018. Gross profit has also reduced by 4% from £68,606,000 in 2017 to £66,799,000 in 2018. The reduction in revenue and gross profit in 2018 is a result of the closure of the cash machine (ATM) parts business unit, which transferred to Hitachi Ltd (Japan) over the course of 2018. This transfer of activities resulted in revenue and gross profit reduction of £18,742,000 and £1,510,000 respectively.

The operating profit of £3,680,000 (2017 loss of £8,519,000) represent an improvement in operating profit from prior year. The improvement is a result of the absence of £8,000,000 Hitachi Air Conditioning Europe SAS investment write off in 2017 as well as cost efficiency in distribution and administrative expenses in 2018.

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 are exposed to a variety of financial risks which 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



S K Pierce
Director
Date: 28 June 2018

Registered No. 02210686

Directors' report

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

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	Resigned 31 st March 2018
A Shimizu	Japanese	Appointed 1 st April 2017 & resigned 30 th September 2017
S Nukui	Japanese	Resigned 27 th April 2017
T Suzuki	Japanese	Resigned 27 th April 2017
I Narukawa	Japanese	Appointed 27 th April 2017 & resigned 20 th April 2018
Y Ogura	Japanese	Appointed 1 st October 2017
S K Pierce	British	Appointed 1 st October 2017
N Nishida	Japanese	Appointed 1 st April 2018
Y Ito	Japanese	Appointed 20 th April 2018

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



S K Pierce
Director
Date: 28 June 2018

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

Opinion

We have audited the financial statements of Hitachi Europe Limited for the year ended 31 March 2018 which comprise the Statement of Profit and Loss, the Statement of Comprehensive Income, The Statement of Changes in Equity, the Statement of Financial Position and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

give a true and fair view of the company's affairs as at 31 March 2018 and of its profit for the year then ended;

have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

Independent auditors' report (continued)

to the members of Hitachi Europe Limited

other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement [set out on page...], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditors' report (continued)

to the members of Hitachi Europe Limited

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Ken Griffin (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Bristol

29 June 2018

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Statement of profit and loss

for the year ended 31 March 2018

	<i>Notes</i>	<i>2018</i> <i>£000</i>	<i>2017</i> <i>£000</i>
Turnover			
Sale of goods		80,779	104,755
Rendering of services		68,028	67,551
Rental income	25	1,159	976
	3	149,966	173,282
Cost of sales		(83,167)	(104,676)
Gross profit		66,799	68,606
Distribution costs		(17,920)	(22,226)
Administration expenses		(46,535)	(46,555)
Pension (expense)	24	(499)	(386)
Other operating expenses	5	(225)	(9,461)
Other operating income	6	2,060	1,503
Operating profit/(loss)	4	3,680	(8,519)
Finance and other similar income	8	3,045	2,008
Finance and other similar costs	9	(1,527)	(1,080)
Profit/(loss) before taxation		5,198	(7,591)
Tax credit	12	1,642	-
Profit/(loss) for the financial year		6,840	(7,591)

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Statement of comprehensive income

for the year ended 31 March 2018

	Notes	2018 £000	2017 £000
Profit/(loss) for the financial year		6,840	(7,591)
Other comprehensive (loss)/ income not to be reclassified to profit or loss in subsequent periods:			
Actuarial (loss)/gain in respect of defined benefit pension scheme	24	(10,316)	332
Total comprehensive (loss) for the year, net of tax		<u>(3,476)</u>	<u>(7,259)</u>

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Statement of changes in equity

for the year ended 31 March 2018

	<i>Issued capital £000</i>	<i>Retained losses £000</i>	<i>Total Equity £000</i>
As at 1 April 2016	257,349	(79,062)	178,287
Loss for the year	-	(7,591)	(7,591)
Other comprehensive gain	-	332	332
Total comprehensive loss	-	(7,259)	(7,259)
Issue of share capital	6000	-	6,000
At 31 March 2017	263,349	(86,321)	177,028
Profit for the year	-	6,840	6,840
Other comprehensive loss	-	(10,316)	(10,316)
Total comprehensive loss	-	(3,476)	(3,476)
At 31 March 2018	263,349	(89,797)	173,552

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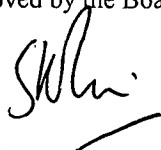
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Statement of financial position

as at 31 March 2018

	<i>Notes</i>	<i>2018 £000</i>	<i>2017 £000</i>
Assets			
Non-current assets			
Property, plant and equipment	13	25,364	26,054
Intangible assets	14	182	178
Investments	15	48,109	48,140
Other non-current financial assets	19	30,564	39,294
		<u>104,219</u>	<u>113,666</u>
Current assets			
Inventories	16	18,805	14,483
Trade and other receivables	17	63,377	60,931
Prepayments and accrued income		1,147	776
Other current financial assets	19	497,076	439,186
Corporation tax		0	112
Cash and cash equivalents		7,685	5,124
		<u>588,090</u>	<u>520,612</u>
Total assets		<u><u>692,309</u></u>	<u><u>634,278</u></u>
Equity and liabilities			
Equity			
Issued capital	22	263,349	263,349
Retained losses		<u>(89,798)</u>	<u>(86,321)</u>
Total equity		173,551	177,028
Non-current liabilities			
Provisions	21	1,304	1,236
Employee benefit liabilities	24	-	-
		<u>1,304</u>	<u>1,236</u>
Current liabilities			
Trade and other payables	18	82,701	79,331
Other current financial liabilities	19	433,340	375,319
Provisions	21	1,413	1,364
		<u>517,454</u>	<u>456,014</u>
Total liabilities		<u>518,758</u>	<u>457,250</u>
Total equity and liabilities		<u><u>692,309</u></u>	<u><u>634,278</u></u>

Approved by the Board and signed on its behalf


S K Pierce
Director

28 June 2018

Notes to the financial statements

at 31 March 2018

1. Accounting policies

Corporate information

The financial statements of Hitachi Europe Limited for the year ended 31 March 2018 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.

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;
- (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.

Notes to the financial statements

at 31 March 2018

1. Accounting policies (continued)

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. For certain revenue arrangements, the company has concluded that it acted as agent and revenue are adjusted accordingly.

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 2018

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 2018

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 2018

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 2018

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 2018

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 2018

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:

	2018 £000	2017 £000
UK	22,113	33,749
Other Western Europe	59,535	71,630
Eastern Europe	43	51
The Near and Middle East	5,279	7,995
Africa	336	327
Japan	46,212	47,267
Russia	512	660
Rest of the world	15,936	11,603
	<u>149,966</u>	<u>173,282</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 Profit/(Loss)

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

	2018 £000	2017 £000
Included in distribution and administrative expenses:		
Auditors' remuneration – audit of the financial statements	210	210
Depreciation – tangible assets	1040	1,088
Amortisation – intangible assets	56	34
Rentals payable under operating leases	762	624
Research and development expenditure	273	207
Net foreign currency loss/(gain)	436	438

5. Other operating expenses

	2018 £000	2017 £000
Write down of investment	-	8,852
Restructuring costs	177	432
Other	48	177
	<u>225</u>	<u>9,461</u>

Notes to the financial statements

at 31 March 2018

6. Other operating income

	2018	2017
	£000	£000
R&D tax credit	174	697
Government grants (note 7)	1,818	399
Dividend received	-	-
Other	68	407
	<u>2,060</u>	<u>1,503</u>

7. Government grants

	2018	2017
	£000	<i>Restated</i> £000
At 1 April	(159)	592
Cash received	3,095	540
Cash paid out to grant partners	(1,410)	(619)
Amount released to the statement of profit or loss	<u>(1,818)</u>	<u>(672)</u>
	<u>(292)</u>	<u>(159)</u>

The company receives government grants on behalf of the grant partners that are redistributed during the financial year. Restatement of prior year comparative as government grant income related to ERDF (EU Grant) of £273,000 was omitted in amount released to profit and loss by error.

8. Finance and other similar income

	2018	2017
	£000	£000
Interest income	124	6
Interest income from group companies	<u>2,921</u>	<u>2,002</u>
	<u>3,045</u>	<u>2,008</u>

9. Finance and other similar costs

	2018	2017
	£000	£000
Interest on debts and borrowings	83	3
Interest payable to group companies	<u>1,444</u>	<u>1,077</u>
	<u>1,527</u>	<u>1,080</u>

Notes to the financial statements

at 31 March 2018

10. Directors' emoluments

	2018 £000	2017 £000
Directors' emoluments	904	901
Directors' defined contributions (pension)	-	-
	<u>904</u>	<u>901</u>

The bonus elements included within the emoluments were £123,480 (2017 –£157,474). No directors accrued benefits from any defined benefit pension scheme in Japan or from the Hitachi UK Pension Scheme (2017 –nil).

The emoluments of the highest paid director were £454,025 (2017 –£350,587). There were no pension contributions paid relating to the highest paid director.

11. Employee benefit expenses

	2018 £000	2017 £000
Wages and salaries	27,639	28,433
Social security costs	2,267	1,960
Other pension costs	880	753
	<u>30,786</u>	<u>31,146</u>

Pension costs of £879,794 (2017 –£ 752,507) are in respect of the defined contribution scheme.

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

	2018 No.	2017 No.
Sales	83	121
Administration	198	176
	<u>281</u>	<u>297</u>

12. Tax

(a) Tax on loss on ordinary activities

The Tax charge is made up as follows:

	2018 £000	2017 £000
UK Corporation tax at 19% (2017: 20%)	-	-
Adjustment in respect of previous year	(1,670)	-
	<u>(1,670)</u>	<u>-</u>
Foreign tax	28	-
Total tax (note 12 (b))	<u>(1,642)</u>	<u>-</u>

Notes to the financial statements

at 31 March 2018

12. Tax (continued)

(b) Factors affecting the total tax charge

The tax assessed on the loss on ordinary activities for the year is lower (2017 –lower) than the standard rate of corporation tax in the UK of 19% (2017 – 20%). The differences are reconciled below:

	2018 £000	2017 £000
(Loss) / profit on ordinary activities before tax	5,197	(7,591)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017: 20%)	987	(1,518)
Effects of:		
Expenses not deductible for tax purposes	98	1,866
Non-taxable income	-	-
Movement in unrecognised deferred tax	(1,085)	(348)
Tax loss utilised in the year	-	-
Adjustments in respect of previous periods	(1,670)	-
Difference in overseas tax rates	28	-
Current year tax charge on non-trading income	-	-
Total tax (note 12(a))	(1,642)	-

(c) Deferred tax

Analysis of deferred tax

	2018 £000	Unrecognized 2017 Restated £000
Depreciation and capital allowances	1,189	900
Tax losses available	12,392	13,058
Other timing differences	2	(8)
Deferred tax asset	13,583	13,950

A deferred tax asset of £13,583 (2017 (Restated) –£13,950) 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. Restatement of prior year tax depreciation and capital allowance due to miscalculation capital allowance under special rate pool by £3,621,000

(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 2018.

Notes to the financial statements

at 31 March 2018

13. Tangible fixed assets

	<i>Land</i> £000	<i>Freehold property</i> £000	<i>Structures</i> £000	<i>Plant and machinery</i> £000	<i>Tools, furniture & fixings</i> £000	<i>Total tangible assets</i> £000
Cost:						
At 31 March 2017	12,000	35,436	1,776	5,697	661	55,570
Additions	-	18	12	304	60	394
Disposals	-	-	(39)	(67)	(20)	(126)
At 31 March 2018	12,000	35,454	1,749	5,934	701	55,838
Depreciation and impairment:						
At 31 March 2017	-	23,241	668	5,159	449	29,517
Depreciation charge for the year	-	530	192	236	83	1,041
Disposal	-	-	(20)	(46)	(18)	(84)
At 31 March 2018	-	23,771	840	5,349	514	30,474
Net book value:						
At 31 March 2017	12,000	12,195	1,108	538	212	26,053
At 31 March 2018	12,000	11,683	909	585	187	25,364

14. Intangible fixed assets

	<i>Computer software</i> £000
Cost:	
At 31 March 2017	1,523
Additions	90
Disposals	(984)
At 31 March 2018	629
Amortisation:	
At 31 March 2017	1,345
Amortisation charge for the year	56
Disposals	(954)
At 31 March 2018	447
Net book value:	
At 31 March 2017	178
At 31 March 2018	182

Notes to the financial statements

at 31 March 2018

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 2017	222,109	2,451	224,560
Additions	-	-	-
Disposals	(31)	-	(31)
At 31 March 2018	222,078	2,451	224,529
Provisions:			
At 31 March 2017	174,170	2,250	176,420
Additions	-	-	-
Disposals	-	-	-
At 31 March 2018	174,170	2,250	176,420
Net book value:			
At 31 March 2017	47,939	201	48,140
At 31 March 2018	47,908	201	48,109

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 2018, the company held the following interests either directly or indirectly through its subsidiaries:

Notes to the financial statements

at 31 March 2018

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 2018

16. Inventory

	2018 £000	2017 £000
Finished goods and goods for resale	17,708	12,482
Inventory in transit	3,460	4,059
Inventory provision	(2,364)	(2,058)
	<u>18,804</u>	<u>14,483</u>

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

17. Trade and other receivables

	2018 £000	2017 £000
Trade receivables	32,738	37,143
Amounts owed by group undertakings	5,085	3,278
Other taxes and social security	6,382	3,474
Non trade receivables*	14,816	15,983
Other receivables	4,356	1,053
	<u>63,377</u>	<u>60,931</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

	2018 £000	2017 £000
Trade payables – third party	23,701	21,266
Amounts owed to group undertakings	27,662	25,770
Accruals	19,863	20,289
Other taxes and social security costs	5,033	2,775
AR advance payments*	-	5,068
Other payables	6,442	4,163
	<u>82,701</u>	<u>79,331</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 2018

19. Other financial assets and financial liabilities

Other financial assets are analysed as follows:

	2018 £000	2017 £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	497,076	439,186
due within 1-2 years	30,564	39,294
Total other financial assets	527,640	478,480

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

	2018 £000	2017 £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	433,340	375,319
Total other financial liabilities	433,340	375,319

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 2018

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>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Euro	154,970	226,768	153,531	226,484
USD	19,211	39,256	21,203	40,208
JPY	13,379	13,012	14,634	10,432
Other	1,731	10,755	6,978	1,506

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>2018</i>	<i>2017</i>
		<i>£000</i>	<i>£000</i>
EUR	+5%	68	14
	-5%	(75)	(15)
USD	+5%	(95)	(45)
	-5%	105	50
JPY	+5%	(60)	123
	-5%	66	(136)

Notes to the financial statements

at 31 March 2018

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 2017	1,160	1,440	2,600
Utilised during the year	(1,100)	(214)	(1,314)
Additional amounts provided	907	524	1,431
At 31 March 2018	<u>967</u>	<u>1,750</u>	<u>2,717</u>
Current	967	446	1,413
Non-current	-	1,304	1,304

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 and provision for potential tax claim related to franked investment dividend received. The impact of discounting on non-current provision is negligible.

Notes to the financial statements

at 31 March 2018

22. Authorised and issued share capital

<i>Authorised, Allotted, called up and fully paid</i>	<i>No.</i>	<i>2018</i>		<i>2017</i>	
		<i>£000</i>	<i>No.</i>	<i>£000</i>	
Ordinary shares of £1 each	263,348,621	<u>263,349</u>	263,348,621	<u>263,349</u>	

23. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £10,541,159 (2017–£6,913,756). 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 2018 were £879,794 (2017 –£782,339). There were no unpaid amounts at 31 March 2018 (2017 – £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 2018 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>2018</i>	<i>2017</i>
Discount rate	2.50%	2.55%
Rate of salary increase	n/a	n/a
Rate of retail price inflation	3.35%	3.45%
Rate of consumer price inflation	2.35%	2.45%
Rate of pension increases in payment (weighted average)	2.35%	2.45%
Post-retirement mortality assumption:		
Base table	95% of SAPS2	95% of SAPS2
Projections for future improvements	CMI 2017	CMI 2015
	Projections, long term trend rate of 1.25% p.a., smoothing factor of 7.5, year of birth projections	Projections, long term trend rate of 1.25% p.a., year of birth projections

Notes to the financial statements

at 31 March 2018

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:

	2018 £000	2017 £000
Fair value of plan assets	229,275	229,740
Benefit obligations	(184,205)	(189,480)
Funded status	45,070	40,260
Unrecognised surplus	(45,070)	(40,260)
Net amount recognised, end of year	-	-

Amounts recognised in the balance sheet consist of:

	2018 £000	2017 £000
Noncurrent asset	45,070	40,260
Unrecognised surplus	(45,070)	(40,260)
	-	-

Change in defined benefits obligation:

	2018 £000	2017 £000
Benefit obligations, beginning of year	189,480	151,571
Interest cost	4,765	5,490
Actuarial (gain)/loss arising from changes in financial assumptions	(4,477)	45,407
Actuarial (gain) arising from changes in demographic assumptions	(277)	(6,508)
Experience (gain)/loss	-	1,971
Gross benefits paid	(5,286)	(8,451)
Benefit obligation, end of year	184,205	189,480

Notes to the financial statements

at 31 March 2018

24. Pensions (continued)

Change in Plan Assets

	2018 £000	2017 £000
Fair value of plan assets, beginning of year	229,740	185,820
Interest income	5,781	6,917
Employer contribution	10,815	6,000
Experience gain/(loss)	(11,276)	39,780
Administration expenses	(499)	(326)
Gross benefits paid	(5,286)	(8,451)
Fair value of plan assets, end of year	<u>229,275</u>	<u>229,740</u>

Plan Asset Allocation, End of Year

	2018 £000	2017 £000
Equity securities	-	47,795
Indexed-linked Gilts	108,916	122,577
Corporate Bonds	-	57,804
Insured Pensioners	71,375	-
Cash and Other	48,984	1,564
Total	<u>229,275</u>	<u>229,740</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.

The Scheme has recently undertaken a buy-in of a proportion of the pensioner liabilities. Therefore, the mortality, investment and inflation risks for the liabilities covered by the buy-in are now covered by an insurance policy, categorised as insured pensioners in schedule above.

Notes to the financial statements

at 31 March 2018

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 £000</i>
Decrease discount rate by 0.5%	19,686
Increase inflation rate by 0.5%	10,934
Life expectancies increase by 1 year	6,294

Components of benefit cost recognised in income statement

	<i>2018 £000</i>	<i>2017 £000</i>
Net interest cost on net defined assets	-	60
Administration expenses	499	326
Past service credit recognised	-	-
Net benefit cost in income statement	<u>499</u>	<u>386</u>

Amounts recognised in other comprehensive income

	<i>2018 £000</i>	<i>2017 £000</i>
Actuarial loss/(gain) arising from changes in assumptions	(4,754)	38,899
Experience loss/(gain) on liabilities	-	1,971
Experience loss/(gain) on assets	11,276	(39,780)
Effect of asset ceiling	3,794	(1,422)
Loss/(gain) recognised in other comprehensive income	<u>10,316</u>	<u>(332)</u>
Cumulative actuarial loss recognised in other comprehensive income	<u>60,035</u>	<u>49,719</u>

Over the period, the Trustees of the Scheme insured a proportion of the pensioner population with Scottish Widows (a buy-in). As part of this insurance transaction, the Company paid a contribution of £10,815k. The impact of the buy in is an asset loss of £11,769k recognised in Other Comprehensive Income, reflecting the difference between the amount paid to Scottish Widows and the IAS19 value of the insured liabilities.

Expected employer contributions

The Company is currently committed to pay no contributions to the Scheme in the year to 31 March 2019.

Notes to the financial statements

at 31 March 2018

25. Other financial commitments

At 31 March 2018 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>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases:				
Within one year	862	587	178	96
In two to five years	3,300	3,322	63	32
In over five years	1,064	1,874	-	-
	<u>5,226</u>	<u>5,783</u>	<u>241</u>	<u>128</u>

Operating lease agreements where the company is lessor

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

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Within one year	1,051	969
In two to five years	3,589	3,825

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 2018 £5,954,172 (2017 –£6,941,444). In addition, the company had import letters of credit in place with the Bank of Tokyo-Mitsubishi totalling £236,277 at 31 March 2018 (2017 - £3,759,421), and with Citibank £97,629 (2017 – 4,233,608)

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