# NEC Europe Limited

**Directors' Report and Financial Statements**

For the year ended 31 March 2017

Registered No: 02832014

Registered No. 02832014

**Directors**

Mr M Hasegawa
Mr J Kitakaze
Mr H Kurosaki
Mr T Matsuki
Sir R Needham
Mr K Sasaki
Mr M Yamashina
Mr I Kawashima
Mr M Kayoiji

**Secretary**

Mr H Komazaki

**Auditors**

KPMG LLP
15 Canada Square
London
E14 5GL

**Bankers**

HSBC Bank plc
8 Canada Square
London
E14 5HQ

**Registered Office**

Athene
Odyssey Business Park
West End Road
South Ruislip
Middlesex
HA4 6QE

## Contents

# Strategic Report

The directors present their Strategic Report for the year ended 31 March 2017.

## Results

The profit and loss account shows a loss before tax for the year of €22,834,000 (2016: €27,312,000) and loss for the year after taxation of €23,205,000 (2016: €27,551,000). Total recognised losses for the year were €28,588,000 (2016: €23,311,000).

The results include the figures of all branches of NEC Europe Ltd, namely, Poland, Hungary, the Czech Republic, Belgium and the Research and Development branch in Germany. During the year, the Polish and Czech Republic branch were closed.

## Principal activity and review of business

NEC Europe Limited is a wholly owned subsidiary of NEC Corporation, the ultimate parent company. NEC Europe Limited owns the majority of share capital of NEC's Business and Network Solutions marketing and distribution subsidiaries in Europe.

The principal activity of the Company and its subsidiaries is the purchase and supply of systems, components, services and integrated solutions for computing and communications applications, as well as high performance computing solutions. The Company generates its revenues from the intercompany IT solutions and Network solutions businesses, and receiving retainer fees from it's parent company.

The Company has competiton at a global, and a local market level. This along with enhancement in the technology of communication applications has caused the subsidiaries in the developed countries in Europe to fall short in achieving their growth targets. To support the achievement of future targets the Company, and it subsidiaries, continues to form strategic alliances and support the development of the public safety business in the EMEA region.

To support the achievement of future growth targets the Excutive Committee of NEC Corporation approved on the 23rd May 2016 a Turnaround project for NEC Europe Ltd and it's Subsidiaries. The project consists of reduction in the Groups's cost basis through restructuring in order to improve subsequent years results. The estimated cost of the restructuring was €6,134,660 and and during the year ended 31 March 2017 a total of €5,840,102 has been spent.

On the 27th January 2017 NEC Corporation, the parent undertaking, approved a capital injection of £35,539,000. Of these funds £20,318,000 was invested in NEC (UK) Ltd. Part of these funds will be used to fulfil future Defined Benefit Pension commitments and on 8th August 2017 £18,839,366 was placed in Escrow.

As part of the review of the company impairment testing was performed on the subsidiaries carrying investment and due to the current, and estimated future market conditions, an impairments was booked of €27,550,000 (2016: €22,335,000).

# Strategic Report

### Key Performance Indicators (KPI's)

The directors have considered the results of the business for the year and have made the following observations on these key performance indicators:

Sales have increased by 50%.(€69.9m 2016: €47m). This is due to a partnership with Juniper Networks to distribute their optical solutions to the telecommunications operators.

The gross profit margin has decreased to 9.5% ( 2016:10.6%).

### Going Concern

The company has net current liabilities at 31st March 2017 of €15,463,000 (2016: Net liabilities €33,369,000) .

A loan facility has been agreed with NEC Capital plc, a subsidiary of NEC Corporation, to assist with funding the day to day operations of NEC Europe Ltd and its' subsidiaries in the European region. The total loan facility that the company can draw down is €135,200,000. This facility is in place until 31st May 2018 and confirmation has been provided by NEC Corporation that additional financial support sufficient to enable NEC Europe Ltd to operate will be provided if required.

The directors therefore have sufficient assurance that the company has adequate resources to continual in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

### Future developments

The directors of the NEC Europe Group are looking to achieve growth through investment in emerging markets

Within the more developed countries in Europe NEC will concentrate on creating and winning new business opportunities in its core businesses. Investment will be made in future business opportunities such as in the business areas of Optical and Energy. NEC will continue to review profitability in all businesses and implement the necessary changes to improve growth.

With regard the results of UK referendum on leaving the EU on the 23rd June 2016 the company has considered the impact of this and currently does not see any significant changes to the business model. Nec Europe Limited is reviewing the operating structure of NEC Laborities Europe in Heidleberg, Germany. In 2018 this may be transferred from a branch office into a German legal entity. The effect on the trade relationship with the company's subsidiaries and multinational workforce is being assessed based on UK governmental policies being enacted.

H. Komazaki

H Komazaki
Company Secretary

Date 20/Feb/2018

# Strategic Report

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

### Dividends

The directors do not recommend the payment of a dividend (2016: €nil).

### Research and Development

During the year, the Company operated one research laboratory, the Network Research Division in Heidelberg, Germany, part of NEC Laboratories Europe. The research and development function is integrated into NEC Europe Limited to shorten the time to market of cutting edge network technologies. The laboratory places special emphasis on solutions meeting the needs of NEC's European customers. All research and development costs are charged to the profit and loss account in the period in which they are incurred.

For the year ended 31 March 2017 Research and Development costs amounted to €14,388,769 (2016: €13,977,624).

### Employee Policy

The Company is firmly committed to the continuation and strengthening of communication lines with all its employees, and is committed to equality of opportunity in all employment practices, policies and procedures. No employee or potential employee will therefore receive less favourable treatment due to their race, creed, nationality, colour, ethnic origin, age, or religious belief.

### Financial risks and uncertainties

As part of the review, the Directors have also considered the exposure of the Company to credit risk, foreign exchange risk, interest rate risk, liquidity risk and pension risk, in order that an overall assessment can be made of the Company's assets, liabilities, its financial position and its results for the year. The Company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

<u>Credit risk</u>

The Company operates policies that require credit checks on and continuous reviews of potential and current customers before sales are made.

<u>Foreign exchange risk</u>

The Company has operations in the UK and Europe and hence has transactions denominated in multiple currencies. The Board reviews and agrees policies for managing foreign exchange risks arising from the Company's operations.

<u>Interest rate risk</u>

The Company seeks to minimise its exposure to movements in interest rates by maintaining positive cash flow and minimising borrowings.

# Directors' Report

## Financial risks and uncertainties - Continued

Liquidity risk

The Company is funded partly through its loan facility with NEC Capital and by its retained profits. The Company participates in a cash pooling arrangement with fellow Group subsidiaries. The directors consider that the available sources of funds are adequate for the Company's operations.

Pension risk

The Company has over the last few years taken steps to reduce risk from the DB scheme, including closing the scheme to future accrual in June 2009 and running an Enhanced Transfer Value Exercise during the first half of 2010. The Company, on behalf of the participating employers, agreed a satisfactory recovery plan with the Trustees after considering the deficit position reported in the 2015 Actuarial Valuation. The deficit payments with regard this plan will cease in March 2020.

Creditor payment policy

It is the Company's policy to adhere to the payment terms agreed with the supplier. Payments are contingent on the supplier providing goods or services to the required standards.

## Political and Charitable contributions

The Company made charitable donations of €6,482 (2016: €5,244). The company made no political donations or incurred any political expenditure during the year (2016: nil).

## Directors

The directors who served during the year are listed below:

Mr Y Ukegawa (resigned 16th May 2016)
Mr M Yamashina (appointed 17th May 2016)
Mr S Sasaki (appointed 20th December 2016)
Mr T Matsuki (appointed 17th May 2016)
Mr Y Matsushita (resigned 31st May 2017)
Mr S Shoji (resigned 16th May 2016)
Mr Y Abe (resigned 16th May 2016)
Mr H Nakata (resigned 19th December 2016)
Ms M Kayoiji
Mr I Kawashima
Mr M Ikeno (resigned 30th September 2017)
Sir R Needham
Mr T Morita (resigned 16th May 2016)

After the year end on 1st June 2017 Mr M Hasegawa and Mr J Kitakaze was appointed as directors, on 1st October 2017 Mr K Kurosaki was appointed as a director.

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

# Directors' Report

### Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will therefore continue in office.

On behalf of the board

H Komazaki
Company Secretary

Date: 20/Feb/2018

# Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Strategic report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## Independent auditor's report to the members of NEC Europe Limited

We have audited the financial statements of NEC Europe Limited for the year ended 31 March 2017 set out on pages 6 to 32. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 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 Directors' Responsibilities Statement set out on page 6 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

### 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 UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Independent auditor's report to the members of NEC Europe Limited (continued)

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report, the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

### Matters on which we are required to report by exception

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.

**Kevin Hall (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*
15 Canada Square
London
E14 5GL

21 February 2018

# Profit and loss account

**for the year ended 31 March 2017**

| | Notes | *2017* *€'000* | *2016* *€'000* |
|---|---|---|---|
| **Turnover** | 2 | **69,974** | 46,519 |
| Cost of Sales | | **(63,329)** | *(41,583)* |
| ***Gross Profit*** | | ***6,645*** | *4,936* |
| Distribution costs | | **(460)** | (233) |
| Administration expenses | | **(44,316)** | (44,507) |
| Other operating income | 3 | **36,613** | 33,401 |
| Net foreign exchange (loss)/gain | | **403** | 34 |
| ***Operating Loss*** | 4 | ***(1,115)*** | *(6,369)* |
| Profit on sale of investments | | **-** | 2,291 |
| Write-off of intercompany loans | | **-** | (736) |
| Balance off investments provisions | 11 | **(22,040)** | (22,335) |
| Other interest receivable and similar income | 5 | **1,189** | 634 |
| Income from shares in group undertakimgs | | **283** | - |
| Interest payable and similar expenses | 6 | **(1,151)** | (797) |
| ***Loss before taxation*** | | ***(22,834)*** | *(27,312)* |
| Tax on losses | 9 | **371** | 239 |
| ***Loss for the financial year*** | | ***(23,205)*** | *(27,551)* |

The notes on pages 13 to 32 form part of these financial statements.

# Statement of other comprehensive income

**for the year ended 31 March 2017**

| | Notes | *2017* *€'000* | *2016* *€'000* |
|---|---|---|---|
| **Loss for the year** | | **(23,205)** | (27,551) |
| ***Other comprehensive income:*** | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Actuarial loss and exchange difference recognised in the pension scheme (Note 18) | | **(7,037)** | 1,031 |
| Transfer of related company into pension scheme | | **-** | 5,758 |
| Foreign exchange adjustments on pension scheme | | **(823)** | (232) |
| Withholding Tax on Pension Scheme Asset | 16 | **2,477** | (2,317) |
| ***Total comprehensive income for the year*** | | **(28,588)** | (23,311) |

The notes on pages 13 to 32 form part of these financial statements.

Registered No. 02832014

# Balance Sheet

**at 31 March 2017**

| | Notes | *2017* €'000 | *2017* €'000 | *2016 Restated** €'000 | *2016* €'000 |
|---|---|---|---|---|---|
| ***Fixed assets*** | | | | | |
| Tangible assets | 10 | | **2,304** | | 2,255 |
| Investments | 11 | | **35,933** | | 34,233 |
| Defined Benefit Pension Surplus | 18 | | **1,668** | | 9,009 |
| | | | **39,905** | | 45,497 |
| ***Current assets*** | | | | | |
| Stock | 12 | **1,023** | | 3,168 | |
| Debtors | 13 | **129,773** | | 103,519 | |
| Cash and cash equivalents | 14 | **682** | | 595 | |
| | | **131,478** | | 107,282 | |
| ***Creditors:*** amounts falling due within one year | 15 | **(146,941)** | | (140,651) | |
| ***Net current liabilities*** | | | **(15,463)** | | (33,369) |
| ***Total assets less current liabilities*** | | | **24,442** | | 12,128 |
| ***Creditors: amounts falling Due after one year*** | 16 | | **(567)** | | (3,153) |
| ***Provisions for liabilities*** | 17 | | **(2,551)** | | (365) |
| ***Net assets*** | | | **21,324** | | 8,610 |
| ***Capital and reserves*** | | | | | |
| Called up share capital | 22 | | **187,871** | | 146,569 |
| Profit and loss account | | | **(166,547)** | | (137,959) |
| ***Shareholders' funds*** | | | **21,324** | | 8,610 |

*Refer to Note 1

The notes on pages 13 to 32 form part of these financial statements.

These financial statements were approved by the Board of Directors' on and were signed on its behalf by:

H. Kurosaki
Director

Date 20th Feb 2018

Registered No. 02832014

# Statement of Changes in Equity

**at 31 March 2017**

| | *Called up Share capital* | *Profit & Loss account* | *Total equity* |
|---|---|---|---|
| | *€'000* | *€'000* | *€'000* |
| Balance at 1 April 2016 | 146,569 | (137,959) | 8,610 |
| Total comprehensive income for the year: | | | |
| Profit or (loss) | - | (23,205) | (23,205) |
| Other Comprehensive Income | - | (5,383) | (5,383) |
| Total comprehensive income/loss for the year | - | (28,588) | (28,588) |
| Shares issued for cash | 41,302 | - | 41,302 |
| Balance at 31 March 2017 | 187,871 | (166,547) | 21,324 |

| | *Called up Share capital* | *Profit & Loss account* | *Total equity* |
|---|---|---|---|
| | *€'000* | *€'000* | *€'000* |
| Balance at 1 April 2015 | 142,869 | (114,648) | 28,221 |
| Total comprehensive income for the year: | | | |
| Profit or loss | - | (27,551) | (27,551) |
| Other comprehensive income | - | 4,240 | 4,240 |
| Total comprehensive income for the year | - | (23,311) | (23,311) |
| Shares issued for cash | 3,700 | - | 3,700 |
| Balance at 31 March 2016 | 146,569 | (137,959) | 8,610 |

Registered No. 02832014

# Notes to the financial statements

**at 31 March 2017**

## 1. Accounting policies

***Basis of preparation***

These financial statements have been prepared on the historical cost basis and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2015/16 Cycle) issued in July 2015 have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of the ultimate parent undertaking include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 *Business Combinations* in respect of business combinations undertaken by the Company in prior periods including the comparative period reconciliation for goodwill; and
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year have been assessed. The key assumptions within the Company's defined benefit pension scheme are include in note 18 and those related to Investments are included in note 11.

# Notes to the financial statements

**at 31 March 2017**

## 1. Accounting policies *(continued)*

**Going concern**

The Company has net current liabilities of €15.4m (2016: €33.4m).

The directors have prepared the financial statements on a going concern basis on the understanding that the Company and its fully owned immediate subsidiaries hold sufficient cash balances to help it continue to meet its obligations as they fall due. To support these cash balances an intercompany loan facility was put in place between the EMEA group and NEC Capital plc, a subsidiary of NEC Corporation.

The total loan facility that the company can draw down is €135,600,000. This facility is in place until 31st May 2018 and confirmation has been provided by NEC Corporation that additional financial support sufficient to enable NEC Europe Ltd to operate will be provided if required.

***Turnover***

Turnover comprises sales of goods and related services, excluding value added tax. Revenue from sales of standard products is recognised when the products are shipped. Revenue from services is recognised as the services are provided. Revenue on other customer contracts is recognised when performance obligations are satisfied and the risk and reward is transferred to the customer.

***Consolidated financial statements***

The Company is exempt by virtue of the Companies Act 2006 section 401 from the requirement to prepare group financial statements as the company and all of its subsidiary undertakings are included in the consolidated accounts of the ultimate parent company.

***Tangible fixed assets and depreciation***

Tangible fixed assets are stated at cost less accumulated depreciation. Provision is made for depreciation at rates calculated to write off the cost of fixed assets in equal annual installments over their estimated useful lives. The principal annual rates in use are:

| | | |
|---|---|---|
| Freehold property | – | 2% straight line basis per annum |
| Leasehold improvements | – | 10% or over the period of the lease if shorter |
| Fixtures and fittings | – | 10-33% straight line basis per annum |
| Computer equipment and vehicles | – | 10-33% straight line basis per annum |

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

***Prior year restatement***

The company has reconsidered the presentation of balances previously disclosed in cash and cash equivalents (Note 14) which relate to the groups cash pooling arrangements. The directors consider that these balances are disclosed as an 'Amount due from subsidiary undertakings' within debtors (Note 13). This results in an increase in debtors of €65,667,000 and a balancing reduction in cash in the prior year. There is no impact on profit and loss or shareholders' funds.

***Classification of financial instruments issued by the Company***

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Registered No. 02832014

# Notes to the financial statements

**at 31 March 2017**

## 1. Accounting policies *(continued)*

***Impairment excluding stocks,***

*Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

***Non-derivative financial instruments***

Non-derivative financial instruments comprise investments in equity, trade and other debtors, cash and cash equivalents and trade and other creditors.

*Trade and other debtors*

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

*Trade and other creditors*

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

*Investments in equity securities*

Investments in subsidiaries are carried at cost less impairment.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits.

**Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

# Notes to the financial statements

**at 31 March 2017**

## 1. Accounting policies *(continued)*

*Taxation*

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

***Foreign currencies***

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

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

Non-monetary items have been translated at rates ruling at the date of change of functional currency or historical rate in foreign currency.

Any gain or loss arising from a change in exchange rates subsequent to the date of a transaction is included as an exchange gain or loss in the profit and loss account.

The assets and liabilities of overseas branches are translated into Euros at the closing rate of exchange, profit and loss transactions are translated at the average rate throughout the year, exchange differences are recorded as a movement in other comprehensive income.

***Operating lease agreements***

Rentals paid under operating leases are charged to income on a straight line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the date of the next rent review.

***Finance lease agreements***

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

# Notes to the financial statements

**at 31 March 2017**

## 1. Accounting policies *(continued)*

***Pension costs- defined benefit plans***

NEC Europe Limited, in conjunction with other fellow subsidiary undertakings of NEC Corporation, operates a defined benefit staff pension scheme, which requires contributions to be made to a separately administered fund.

Pension scheme assets are measured using market values. For quoted and unitised securities the current bid price is taken as market value. The cost of providing benefits under the defined benefit plans is determined separately for the plan using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested.

The interest cost and the expected return on assets are shown as net amount of other costs or credits adjacent to interest.

Actuarial gains and losses are recognised in full in the statement of recognised gains and losses in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status), less any past service cost not yet recognised and less the fair-value of plan assets out of which the obligations are market price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

***Pension costs- defined contribution plans***

The Company also operates a stakeholder pension scheme. The amount charged to the profit and loss account represents the contribution payable to the scheme in respect of the accounting period.

***Research and Development***

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

***Provisions***

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

# Notes to the financial statements

**at 31 March 2017**

## 1. Accounting policies *(continued)*

***Reserves***

The Company's reserves are as follows:

- Called up share capital reserve represents the nominal value of the shares issued.
- Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

## 2. Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the Company's ordinary activities, stated net of value added tax.

| *Analysis of turnover by activity* | ***2017*** | *2016* |
|---|---|---|
| | ***€'000*** | *€'000* |
| Sale of goods | **57,068** | 38,419 |
| Provision of services | **12,906** | 8,100 |
| | **69,974** | 46,519 |

| *Analysis of turnover by geographical market* | ***2017*** | *2016* |
|---|---|---|
| | ***€'000*** | *€'000* |
| United Kingdom | **10,675** | 11,669 |
| Other Locations | **59,299** | 34,850 |
| | **69,974** | 46,519 |

## 3. Other operating income

| | ***2017*** | *2016* |
|---|---|---|
| | ***€'000*** | *€'000* |
| Retainer fee income from parent undertaking | 36,418 | 32,918 |
| Commission fee income | 195 | 483 |
| | 36,613 | 33,401 |

# Notes to the financial statements

**at 31 March 2017**

## 4. Profit and Loss Account

Loss on ordinary activities before taxation is stated after charging:

| | *2017* | *2016* |
|---|---|---|
| | *€'000* | *€'000* |
| Operating lease rental – land and buildings | **2,686** | 1,562 |
| Operating lease rental – other | **34** | 40 |
| Research and development | **14,389** | 13,977 |
| Depreciation | **1,314** | 1,103 |

| | *2017* | *2016* |
|---|---|---|
| | *€'000* | *€'000* |
| ***Auditor's remuneration:*** | | |
| - Audit of these financial statements | **117** | 127 |
| - Audit of financial statements of subsidiaries pursuant to legislation | **475** | 465 |
| - Other services relating to taxation for Company and subsidiaries | **279** | 360 |
| - Audit related assurance services | **120** | 150 |
| - Other professional services | **148** | - |

## 5. Other interest receivable and similar income

| | *2017* | *2016* |
|---|---|---|
| | *€'000* | *€'000* |
| Interest receivable on cash deposited with associated company | **798** | 561 |
| Net return from Defined Benefit Pension | **391** | 73 |
| | **1,189** | 634 |

## 6. Interest payable and similar expenses

| | *2017* | *2016* |
|---|---|---|
| | *€'000* | *€'000* |
| Interest payable on loan facility with fellow company | **(1,008)** | (797) |
| Other Interest Payable | **(143)** | - |
| | **(1,151)** | (797) |

# Notes to the financial statements

**at 31 March 2017**

## 7. Staff numbers and costs

| | *2017* | *2016* |
|---|---|---|
| | *€'000* | *€'000* |
| Wages and salaries | 23,243 | 23,627 |
| Social security costs | 2,444 | 2,640 |
| Pension costs | 732 | 815 |
| | 26,419 | 27,082 |

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

| | *2017* | *2016* |
|---|---|---|
| | *No.* | *No.* |
| UK | 155 | 185 |
| Continental Europe | 93 | 106 |
| | 248 | 291 |

The charge relating to the defined contribution pension scheme for the period represents contributions payable by the Company to the scheme and amounted to €732,093 (2016: €815,2115). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

## 8. Directors' emoluments

The aggregate directors' emoluments amounted to €498,601 (2016: €408,118), including pension contributions of €16,990 (2016: €18,473). There were no payments to the directors from any subsidiaries of the Company.

The emoluments of the highest paid director were €331,572 (2016: €355,337).

Eight directors (2016:8) performed no executive function and received no remuneration in respect of services to the Company and its subsidiaries.

Registered No. 02832014

# Notes to the financial statements

**at 31 March 2017**

## 9. Tax

**Recognised in the profit and loss account**

| | *2017* | *2016* |
|---|---|---|
| | *€'000* | *€'000* |
| *Current tax:* | | |
| Adjustments in respect of previous years | (11) | - |
| Taxation of overseas profits | 491 | 130 |
| Total current tax charge | 480 | 130 |
| *Deferred tax:* | | |
| Withholding tax on Defined Benefit Asset | (109) | 109 |
| Total deferred tax | (109) | 109 |
| Tax on Loss on ordinary activities | 371 | 239 |

**Reconciliation of tax expense**

| | *2017* | *2016* |
|---|---|---|
| | *€'000* | *€'000* |
| Loss for the year | (23,205) | (27,551) |
| Total Tax expense | 371 | 239 |
| Loss on ordinary activities before taxation | (22,834) | (27,312) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK at 20% (2016 – 20%) | (4,567) | (5,462) |
| Unrecognised deferred tax, relating to originating and reversal of timing differences | - | 119 |
| Adjusted relief on pension contributions paid | (79) | (79) |
| Profit on disposal of investment not deductible for tax purposes | - | (458) |
| Current year losses for which no deferred tax asset was recognised | 210 | 1,339 |
| Withholding tax on Defined Benefit Pension Surplus | (109) | 109 |
| Taxation on overseas profits | 491 | 130 |
| Impairment/expense not deductible for tax purposes | 4,425 | 4,541 |
| Total tax expense | 371 | 239 |

# Notes to the financial statements

**at 31 March 2017**

## 9. Tax *(continued)*

The directors reviewed the Deferred tax balances at 31 March 2017 and they cannot predict with sufficient certainty the generation of taxable profits against which they would be realised.

The Company has not recognised deferred tax assets at 17% (2016:18%) in respect of depreciation in excess of capital allowances of €1,595,606 (2016: €2,646,360), provisions not allowed for tax purposes of €2,293,837 (2016:€ 11,700), and tax losses carried forward of €15,241,087 (2016:€ 14,306,102).

The directors consider sufficient analysis has been undertaken in respect of periods up to 31 March 2015 to recognise submitted and anticipated group relief claims within the NEC Europe Limited group, but no such claims have yet been assessed or recognised in respect of the year ended 31 March 2017. The impact of group relief claims in respect of other UK entities within the NEC Corporation group is recognised when a claim is submitted and there is reasonable certainty it will be agreed.

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and 18% (effective 1 April 2020) were substantively enacted on 26th October 2015. The deffered tax at 31st March 2017 has been calculated based on these rates.

An additonal reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future tax charge accordingly.

## 10. Tangible fixed assets

| | *Leasehold and Freehold or improvements €'000* | *Fixtures fittings, tools and equipment €'000* | *Total €'000* |
|---|---|---|---|
| Cost: | | | |
| Balance as at 1 April 2016 | 1,621 | 31,187 | 32,808 |
| Additions | 110 | 1,422 | 1,532 |
| Disposals | (124) | (285) | (409) |
| Balance as at 31 March 2017 | 1,607 | 32,324 | 33,931 |
| Depreciation: | | | |
| Balance as at 1 April 2016 | 738 | 29,815 | 30,553 |
| Charge for year | 131 | 1,183 | 1,314 |
| Disposals | - | (240) | (240) |
| Balance as at 31 March 2017 | 869 | 30,758 | 31,627 |
| **Net book value:** | | | |
| **At 31 March 2017** | **738** | **1,566** | **2,304** |
| At 31 March 2016 | 883 | 1,372 | 2,255 |

# Notes to the financial statements

**at 31 March 2017**

## 11. Investments

| | *Shares in Group Undertakings €'000* | *Associate Undertakings €'000* | *Total €'000* |
|---|---|---|---|
| *Cost* | | | |
| Balance as at 31 March 2016 | 120,485 | 5,905 | 126,390 |
| Additions | 23,740 | - | 23,740 |
| Balance as at 31 March 2017 | 144,225 | 5,905 | 150,130 |
| *Provisions* | | | |
| Balance as at 31 March 2016 | 92,157 | - | 92,157 |
| Re-instatement of previous years | (5,510) | - | (5,510) |
| Provided in the year | 27,550 | - | 27,550 |
| Balance as at 31 March 2017 | 114,197 | - | 114,197 |
| *Net book value* | | | |
| **At 31 March 2017** | **30,028** | **5,905** | **35,933** |
| At 31 March 2016 | 28,328 | 5,905 | 34,233 |

Additions

During the year an investment to a group undertaking NEC (UK) Limited, for the amount of €17,497,173 has been made to cover future obiligations to the defined benefit pension scheme.

Impairment review of investments

During the year the Director's conducted an impairment review of investments.

Consquently certain investments have been written down by €22,040,000 (2016: €22,335,000) and certain investments had previous impairments reversed by €5,510,000 (2016: nil). The impairment review has been recognised in Balance of investments provisions within the Profit and Loss account.

The Subsidiary has been considered the cash generating unit. The recoverable amount of investments is the higher of fair value of assets less cost to sell and the value in use. The value in use been calculated by the present value of future cash flows including any proceeds from future disposal. The key assumptions the calculation are:

| | *2017* |
|---|---|
| Period over which management has projected cash-flows | **5 yrs** |
| Growth rate used to extrapolate cash flows | **0.0%** |
| Discount rate | **5.9%** |

The discount rate used is the discount rate of NEC Corporation. This is considered by the directors to be an applicable rate for the NEC Europe region.

# Notes to the financial statements

**at 31 March 2017**

## 12. Stocks

| | *2017* | *2016* |
|---|---|---|
| | ***€'000*** | *€'000* |
| Finished goods and goods for resale | **1,023** | 3,168 |

Finished goods and goods for resale recognised as cost of sales in the year amounted to €22,471,101 *(2016:€36,571,000)*. The write-down of stocks to net realisable value recognised as cost of sales in the year amounted to a credit of €(229,329 Credit) *(2016: €868,015 Credit)*.

## 13. Debtors

| | *2017* | *2016* |
|---|---|---|
| | | *Restated* |
| | ***€'000*** | *€'000* |
| Trade debtors | **1,282** | 1,007 |
| Amounts due from subsidiary undertakings | **113,197** | 90,381 |
| Amounts due from fellow subsidiary undertakings | **2,379** | 974 |
| Amounts due from parent undertaking | **10,871** | 7,345 |
| Other debtors | **1,537** | 2,727 |
| Corporation tax receivable | **-** | 3 |
| Prepayments and accrued income | **507** | 1,082 |
| | **129,773** | 103,519 |

## 14. Cash and cash equivalents

| | *2017* | *2016* |
|---|---|---|
| | | *Restated* |
| | ***€'000*** | *€'000* |
| Cash at bank | **682** | 595 |
| | **682** | 595 |

# Notes to the financial statements

**at 31 March 2017**

## 15. Creditors: amounts falling due within one year

| | *2017* | *2016* |
|---|---|---|
| | *€'000* | *€'000* |
| Trade creditors | **10,641** | 10,570 |
| Amounts due to subsidiary undertakings | **109,432** | 105,602 |
| Amounts due to fellow subsidiary undertakings | **1,400** | 1,627 |
| Amount due to parent undertaking | **15,169** | 13,226 |
| Finance lease liabilities | **344** | 341 |
| Other creditors | **107** | 255 |
| Taxation and social security | **501** | 598 |
| Accruals and deferred income | **9,347** | 8,432 |
| | **146,941** | 140,651 |

Included within amounts due to fellow subsidiary undertakings is €109,431,934 (2016: €105,601,930) is a cash loan from fellow subsidiary undertakings as part of the cash pooling arrangement. Interest is charged on this cash loan at 1.25% and the facility is reviewed on an annual basis in May.

The finance lease liabilities reflect the net present value of payments due in relation to assets under finance lease agreements from a third party finance company which have in turn been leased on the same terms to a subsidiary and for which an equivalent amount is included within amounts due from subsidiary undertakings.

## 16. Creditors: amounts falling due after more than one year

Movement in withholding tax during the year

| | *1 April 2016* | *Recognised in income* | *Recognised in equity* | *31March 2017* |
|---|---|---|---|---|
| | *€'000* | *€'000* | *€'000* | *€'000* |
| On Defined Benefit Pension Surplus | **(3,153)** | **109** | **2,477** | **(567)** |
| | **(3,153)** | **109** | **2,477** | **(567)** |

Movement in withholding tax during the prior year

| | *1 April 2015* | *Recognised in income* | *Recognised in equity* | *31March 2016* |
|---|---|---|---|---|
| | *€'000* | *€'000* | *€'000* | *€'000* |
| On Defined Benefit Pension Surplus | (727) | (109) | (2,317) | (3,153) |
| | (727) | (109) | (2,317) | (3,153) |

The withholding tax relates to 35% of the Defined Benefit Pension Surplus which would be withheld by the pension trustees on repayment.

# Notes to the financial statements

**at 31 March 2017**

## 17. Provisions for liabilities and charges

| | *Property dilapidations* *€'000* | *Contract performance provisions* *€'000* | *Vacant Property provisions* *€'000* | *Total* |
|---|---|---|---|---|
| At 1 April 2016 | (291) | (74) | - | (365) |
| Change in year | (736) | (208) | (1,242) | (2,186) |
| **At 31 March 2017** | **(1,027)** | **(282)** | **(1,242)** | **(2,551)** |

Property Dilapidations

The Company has leasehold properties and is committed to pay for dilapidation costs at the end of the lease period. In determining the provision, advice was given in March 2012 by an independent Chartered Survey on the expected cash flows and these have been discounted on a pre-tax basis at a rate of 5.08% per annum.

Contract Performance Provisions

The provision relates to the risks involved in the performance of certain contracts. The present obligation for the commitments under the contracts have been recognised and provided based on directors' best estimate. The basis of calculation represents the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Vacant Property Provisions

The company has surplus space within one of it's properties that has been vacated, segregated and made availale for potential sub-lease to third parties if the lease allows. Provision has been made for the residual lease commitments, together with other outgoings, after taking into account existing sub-tenant arrangements. Provison is credited to the profit and loss account to match lease outgoings incurred during the year. In determining the provision the cash flows have been discounted on a pre-tax basis at a rate of 5.08%.

# Notes to the financial statements

**at 31 March 2017**

## 18. Defined benefit pension scheme

The company is a member of a defined benefit pension scheme. The principal employer of the scheme is NEC Europe Limited which is an entity wholly owned by NEC Corporation. Company employees are ineligible to join this scheme as it is closed for new members. The scheme provides final salary defined benefits and is funded by the participating companies. For funding purposes a full actuarial valuation of the defined benefit pension scheme was undertaken at 30 June 2015 by Mercer Limited, a qualified independent actuary.

The fund assets are administered by trustees and held separately from the participating companies' finances.

For the statutory accounts ending 31st March 2017 the principal employer received a report from Mercer Limited on the valuation of the scheme under FRS 101.

The Company's share of the underlying assets and liabilities set out below.

| | *2017* | *2016* |
|---|---|---|
| | ***€'000*** | ***€ '000*** |
| Total Defined Benefit Liability | **(72,423)** | (56,813) |
| Total Defined Benefit Asset | **74,044** | 65,822 |
| Net Asset for defined benefit obligations | **1,621** | 9,009 |

On the 28th January 2016 a Flexible Apportionment Arrangement was signed by NEC Europe Ltd, NEC Technologies (UK) Limited and the Trustees of the NEC Staff Pension Scheme (UK). The purpose of the Arrangement was for the company to take over responsibility for all the liabilities and assets in relation to the pension scheme for NEC Technologies (UK) Limited.

NEC Corporation provided a Limited Guarantee to the Trustees of the NEC Staff Pension Scheme guaranteeing all future obligations and liabilities of NEC Technologies (UK) Limited up to an amount of £35,000,000.

The underlying assets and liabilities set out below is in respect of the whole scheme are based on the independent actuary's report.

| | *2017* | *2016* |
|---|---|---|
| | ***£'000*** | ***£'000*** |
| Total Defined Benefit Asset | **(206,341)** | (147,259) |
| Total Defined Benefit Liability | **204,613** | 171,683 |
| Net Liability for defined benefit obligations | **(1,728)** | 24,424 |

# Notes to the financial statements

**at 31 March 2017**

## 18. Defined benefit pension scheme (Continued)

| | Multi-Employer Scheme | | Company Portion | |
|---|---|---|---|---|
| | *2017* | *2016* | *2017* | *2016* |
| | *£'000* | *£'000* | *€'000* | *€'000* |
| **Change in defined benefit obligation** | | | | |
| As at 1 April | **147,259** | 160,701 | **56,813** | 32,771 |
| Interest cost | **5,453** | 5,724 | **1,935** | 1,074 |
| Gain on curtailments/changes/introductions | **211** | 98 | **26** | 9 |
| Re measurement: Actuarial gains/losses | **56,077** | (15,864) | **18,986** | (1,195) |
| Benefits paid | **(2,659)** | (3,400) | **(943)** | (638) |
| Transfer in from NEC Technologies UK | **-** | - | **-** | 27,411 |
| Limited | **-** | - | **(4,394)** | (2,619) |
| Exchange Adjustments | | | | |
| As at 31 March | **206,341** | 147,259 | **72,423** | 56,813 |
| | | | | |
| **Change in fair value of plan assets** | | | | |
| As at 1 April | **171,683** | 167,952 | **65,822** | 34,848 |
| Past service cost | **(543)** | (800) | **(192)** | (150) |
| Interest income | **6,617** | 6,036 | **2,321** | 1,147 |
| Return on plan assets excluding interest income | **26,983** | (2,453) | **11,930** | (166) |
| Employer contributions | **2,531** | 4,348 | **362** | 397 |
| Benefits paid | **(2,658)** | (3,400) | **(943)** | (638) |
| Transfer in from NEC Technologies UK | **-** | - | **-** | 33,169 |
| Limited | **-** | - | **(5,256)** | (2,785) |
| Exchange Adjustment | | | | |
| Balance at 31 March | **204,613** | 171,683 | **74,044** | 65,822 |

| | | | | |
|---|---|---|---|---|
| **Costs relating to defined benefit plans** | | | | |
| Gain on curtailments/changes/introductions | **211** | 98 | **26** | 9 |
| Administrative expenses and/or taxes (not Reserved within DBO) | **543** | 800 | **192** | 1,074 |
| Interest (income) on plan assets | **(6,617)** | (6,036) | **(2,321)** | (1,147) |
| Interest expense on DBO | **5,453** | 5,724 | **1,935** | 150 |
| Included in Profit and Loss account | **(410)** | 586 | **(168)** | 86 |
| | | | | |
| **Re: measurements** | | | | |
| Effect of changes in assumptions | **62,214** | (8,012) | **21,836** | 1,431 |
| Effect of experience adjustments | **(37)** | (7,852) | **(516)** | (234) |
| Cost/(Return) on plan assets (excluding Interest Income) | **(28,784)** | 2,453 | **(12,620)** | (166) |
| Flexible Apportionment Arrangement | **-** | - | **-** | 5,758 |
| | | | | |
| Included in Other comprehensive income | **(33,393)** | (13,411) | **8,700** | 6,789 |

# Notes to the financial statements

**at 31 March 2017**

**18. Defined benefit pension scheme (Continued)**

| | Multi-Employer Scheme | | Company Portion | |
|---|---|---|---|---|
| | *2017* | *2016* | *2017* | *2016* |
| | *£'000* | *£'000* | *€'000* | *€'000* |
| **Fair value of plan assets** | | | | |
| Cash and cash Equivalents | **1,375** | 264 | **205** | 101 |
| Equity instruments | **58,665** | 47,768 | **8,766** | 18,199 |
| Debt Instruments | **99,055** | 81,472 | **14,794** | 31,236 |
| Real Estate | **9,940** | 5,086 | **779** | 1,950 |
| Other | **35,627** | 37,393 | **6,030** | 14,336 |
| Total | **204,612** | 171,683 | **30,574** | 65,822 |

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The major assumptions used by the actuary to calculate the group defined benefit liability are set out below:

| | *2017* | *2016* |
|---|---|---|
| | *%* | *%* |
| Rate of increase in pensionable salaries | **n/a** | n/a |
| Discount rate | **2.70** | 3.90 |
| Inflation assumption RPI | **3.20** | 3.00 |
| Rate of pension increase | **3.15** | 2.95 |

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard S2NA light YOB tables rated down 1 year for males and females, and CMI 2014 projections with long term rate of 1.5% per annum underpin. The weighted average duration for males currently aged 65 is 24.2 years and for females currently aged 65 is 26.4 years.

**Sensitivity analysis**

table summarises what the total of the Multi-Employer Scheme defined benefit obligation at the end of the reporting period would have been as a result of a change in the respective assumptions by .25%.

| | *2017* | *2016* |
|---|---|---|
| | *£'000* | *£'000* |
| Discount rate | **220,394** | 149,956 |
| Inflation assumption RPI | **216,951** | 148,699 |

In valuing the liabilities of the pension fund at 31st March 2017 mortality assumptions have been made as indicated above. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31st March 2017 would have increased to £211,669,555 before deferred tax.

# Notes (continued)

## 18. Defined benefit pension scheme *(continued)*

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 30th June 2015 are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

### Funding

The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. The funding of the Multi-Employer Scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. The last actuarial funding valuation was done on 30th June 2016 by Mercer Limited.

The companies funding requirements are measured based on their specific liabilities and an apportionment of the orphan companies. If the company withdrawals from the scheme they are required to meet their outstanding funding commitments before leaving.

The Multi-Employer Scheme is a Last Man Standing scheme. If the scheme is wound up the pension trustees will use any part of the Scheme left after they have satisfied all liabilities to pay to the Participating Employers in any proportion the trustees decide.

The Company expects to pay £310,465 in contributions to its defined benefit plans in the next annual reporting period, and subsequent annual contributions of £3,445,797 until the year ended 31st March 2020. The weighted average duration of the defined benefit obligation at the end of the reporting period is £917,666 over the last 6 years.

## 19. Other financial commitments

At 31 March 2017, commitments to payments under non-cancellable operating leases applicable to the Company were as follows:

| | *2017 Land and buildings €'000* | *2017 Other €'000* | *2016 Land and buildings €'000* | *2016 Other €'000* |
|---|---|---|---|---|
| Within 1 year | - | 2,105 | 62 | 1,336 |
| Between 2 to 5 years | 1,521 | 449 | 1,764 | 4,780 |
| Over 5 years | 4,751 | - | 5,908 | - |
| | 6,272 | 2,554 | 7,734 | 6,116 |

The Other operating lease item relates to equipment leased from a third party finance company which is then leased to a subsidiary.

## 20. Guarantees

On the 21 December 2012 Kapsch Carriercom – Unipessoal Lda. acquired the business and assets of Railway Communiations Business from NEC Portugal – Telecomunicacoes e Sistemas S.A.

Part of the terms of the agreement was NEC Europe Limited would guarantee any sums due from NEC Portugal – Telecomunicacoes e Sistemas S.A. to Kapsch Carriercom – Unipessoal Lda. for a period of 5 years from the date of completion and up to a maximum aggregate amount of €1,800,000.

# Notes (continued)

## 21. Subsequent Events

On the 21st June 2017 NEC Europe Limited committed to engage in the NEC Global Shared Service Centre project. This involves the outsourcing of accounting and supply chain processes.
On the 8th August 2017 NEC Europe limited and it's UK Subsidiaries transferred £18,839,395 into an Escrow account. This is to fund the future defined benefit pension obligations.

## 22. Issued share capital

| *Allotted, called up and fully paid* | *2017* *€'000* | *2016* *€'000* |
|---|---|---|
| 146,507,306 (2016: 110,968,306) Ordinary shares of £1 each | **187,871** | 146,569 |

On the 20th February 2017 the company issued 35,539,000 Ordinary shares of £1 each for cash.

## 23. Fixed Asset Investment

The Company has the following investments in subsidiaries and associates:

| Name | Country of incorporation principal country of operation. | Registered Office |
|---|---|---|
| NEC (UK) Ltd. | United Kingdom (registered in England and Wales) | Athene, Odyssey Business Park, West End Road, South Ruislip, HA4 6QE |
| NEC Deutschland GmbH | Germany | Fritz-Vomfelde-Strase, 14-16, 40547, Dusseldorf |
| NEC France S.A.S. | France | 29, Rue Des Hautes, Patures, 92737, Nanterre, CEDEX, Paris |
| NEC Italia S.p.A | Italy | Viale Enrico, Forlanini, 23 20134 Milano |
| NEC Scandinavia AB | Sweden | Box 1295, 164 29, Kista, Sweden |
| NEC Iberica S.L. | Spain | Calle de Anabel Segura 7, 2 Plta - Arroyo de la Vega 28108 Alcobendas, Madrid |
| NECPortugal Telecomunicações e Sistemas, S.A. | Portugal - | Edificio Espace, No59, Pisa 0, Bloco 2, Letra B, Parque das Nacoes, 1990-207 Lisboa |
| NEC Display Solutions UK Ltd ** | United Kingdom (registered in England and Wales) | Athene, Odyssey Business Park, West End Road, South Ruislip, HA4 6QE |
| NEC Finland OY ** | Finland | Ahventie 4 , FIN-02170 ESPOO |
| NEC Switzerland AG ** | Switzerland | Allmendstrasse 140, 8041 Zürich |
| NEC Eastern Europe KFT. | Hungary | H-1142 Budapest Ungvár u. 64-66. |
| NEC Nederland BV | Netherlands | Olympia 4, 1213 NT HILVERSUM, Netherlands |
| NEC Africa (Pty) Ltd | South Africa (51.85% Holding) | Block B, 82 Roan Crescent, Corporate Park North, Midrand 1685, Johannesburg |
| NEC West Africa Limited | Nigeria (10% Holding, 90% direct subsidiary Holding) | 3rd Floor, MAKU PLAZA, No.109, Awolowo Road, South-West Ikoyi, Lagos |
| NEC Telecommunication and Technology Limited | Turkey (98.64% Holding) | Dikilitas Emirhan Cad. No.113 Barbaros Plaza Is Merkezi C Blok Kat:10 Besiktas 34349 Istanbul |
| CJSC NEC Neva Communications Systems | Russia (90% Holding) | 195279, Saint Petersburg, Russia, Shosse Revolyutsii, bld.102/2 |
| XON Holdings | South Africa (25% Holding) | XON 218 Roan Crescent, Corporate Park North, Midland Johannesburg |

# Notes (continued)

## 23. Fixed Asset Investment (Continued)

Subsidiary undertakings are directly held by NEC Europe Ltd. Which owns 100% of the issued ordinary share capital except where indicated.

The principal business of each subsidiary is the sale and distribution of Computer and Communication products and other electronic devices.

**Held by a subsidiary undertaking.

## 24. Related Parties

The company has taken advantage of the exemption available under FRS 101 not to disclose transactions or balances with other members who are owned 100% within the group headed by NEC Corporation.

The company also trades with NEC Africa (Pty) Ltd and XON holdings which are not owned entirely by the group headed by NEC Corporation.

Transactions with NEC Africa (Pty) Ltd and XON holdings consist of sales of hardware and recharge of expenses. They were as follows:

| | *Sales to* | | *Administrative expenses incurred from* | |
|---|---|---|---|---|
| | ***2017*** | *2016* | ***2017*** | *2016* |
| | ***€'000*** | *€'000* | ***€'000*** | *€'000* |
| NEC Africa (Pty) Ltd | **1,229** | 1,223 | **-** | 18 |
| XON holdings | **20** | 83 | **-** | - |
| | **1,249** | 1,306 | **-** | 18 |

| | *Receivables outstanding* | | *Creditors outstanding* | |
|---|---|---|---|---|
| | ***2017*** | *2016* | ***2017*** | *2016* |
| | ***€'000*** | *€'000* | ***€'000*** | *€'000* |
| NEC Africa (Pty) Ltd | **320** | 136 | **22** | - |
| XON holdings | **-** | 14 | **-** | - |
| | **320** | 150 | **22** | - |

## 25. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party is NEC Corporation, which is incorporated in Japan. The smallest and largest group in which the results of the Company are consolidated is that of NEC Corporation. The accounts of the ultimate holding company, which heads the largest Group in which the results of the Company are consolidated are available to the public at NEC Corporation, 7-1, Shiba 5-chome, Minato-ku, Tokyo, Japan.