

Registration number: 02307625

NTT Europe Ltd

Annual Report and Financial Statements

For the year ended 31 March 2019

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NTT Europe Ltd

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Company Information

Directors	C Hamilton T Yamaguchi H Nishioka T Sakae
Company secretary	M Shimizu
Registered number	02307625
Registered office	1 King William Street London EC4N 7AR
Auditors	KPMG LLP 15 Canada Square London E14 5GL
Bankers	HSBC 21 Kings Mall King Street Hammersmith London W6 0HW
Solicitors	Pinsent Masons LLP 30 Crowne Place Earl Street London EC2A 4ES

Strategic Report

for the Year Ended 31 March 2019

The directors present their strategic report for the year ended 31 March 2019.

Principal activities

NTT Europe Ltd's ("the Company") principal activities during the period have been the provision of global information and communications technology (ICT) solutions including cloud, data-centre, network and managed services for enterprises. This is backed up by its parent company (NTT Communications Corporation "NTT Com") worldwide infrastructure, including the leading global tier-1 IP network, the Arcstar Universal One VPN network reaching 196 countries and over 140 secure data centres worldwide.

The Company has branch offices in Germany, France, Netherlands, Belgium, Switzerland, Spain and UAE

On 1 July 2019, the company transferred its entire issued share capital from its current shareholder Nippon Telegraph and Telephone Corporation to NTT Ltd.

NTT Group has advanced initiatives such as the "One NTT" global growth strategy to enhance the competitiveness of our global business and our digital transformation of the domestic business.

In order to enhance the competitiveness of our global business, NTT Group newly established a global holding company under NTT (company name: NTT, Inc.), and transferred control of NTT Communications, Dimension Data, NTT Security, and NTT Data to this holding company. In order to activate investment, primarily into areas of technology for which the global market is expected to grow, a global innovation fund (company name: NTT Venture Capital, L.P.) has also been established. Furthermore, NTT has established in the United States a new company specializing in procurement (company name: NTT Global Sourcing, Inc.) for hardware, software and services purchased jointly by Group companies in order to centralize price negotiations and enter into comprehensive agreements with manufacturers and vendors around the globe.

Review of the business

The revenue of the Company for the year ended 31 March 2019 amounted to £254.4m (2018: £253.8m). Increase in revenue for the financial year ended 31 March 2019 comprises of; revenue from services increase of 2.2% to £240.3m (2018: £235.2m) and revenue from sale of goods £14.0m (2018: £18.6m) decrease of 24.7% from prior year.

The Company made a profit for the year after taxation of £7.7m (2018: £5.9m) which was transferred to reserves.

Investments are being made continuously to enhance products and services in order to respond to customer demands and to improve operational efficiency and profitability.

Our primary business solutions Arcstar VPN Network Services and Cloud Managed Services have contributed to the revenue growth and profitability improvement for Network Services and Cloud/Data-centre services respectively.

Our portfolio of customer encompasses a wide range of business sectors and our key customers include large global enterprises in the ICT/Professional services, Manufacturing and Automotive industries.

Strategic Report

for the Year Ended 31 March 2019

Going concern

The financial statements have been prepared on a going concern basis. On 19 April 2016 the Company refinanced its debt. A loan of £27 million has been raised with NTT Finance, which is repayable in 3 years. On 26 April 2018 the company made a repayment of £1m against this loan. On 26 April 2019, the Company made a repayment of £8m against this loan. On 26 April 2019 the Company refinanced the remainder of the loan of £18m, which is repayable in 2 years.

At 31 March 2019, the company had net current assets of £22.3m (2018: £38.6m), cash of £50.4m (2018: £53.0m) and committed undrawn loan facilities of £15m. The directors have prepared cash flow forecasts for the period to 31 March 2021 and are satisfied that the company will be able to meet its liabilities as they fall due.

Therefore, after taking into account the above factors, the directors believe that the company can manage its business risks successfully and are satisfied that it has sufficient financial resources to enable them to continue operating in the foreseeable future.

Future developments

Business Transformation

NTT Communications will continue to offer solutions to customers' business challenges by driving our business transformations and by leveraging advanced technologies such as "NTT Research, Inc." and "Disruptive Innovation Approach" as a DX Enabler™.

Initiatives for FY2019

NTT Communications' Efforts to Realize Smart World

- Contributing to NTT Group's Smart World and development of new fields
- Contributing to Smart World Development by Utilizing NTT Group Resources:

Where appropriate areas of development and focus will be aligned and integrated with NTT Ltd's market commitment to bring together intelligent technology and services in one place and leverage its capabilities to enable clients digital transformation.

NTT Ltd's solutions are data driven, connected, digital, and secure and concentrate on 4 pillars:

- Intelligent Business
- Intelligent Workplace
- Intelligent Infrastructure
- Intelligent Cybersecurity

Strategic Report

for the Year Ended 31 March 2019

Future developments (continued)

These solutions are underpinned by the following products and services:

- Managed Services
- ICT Infrastructure Services
- Consulting Services
- Support Services
- Technical Services

Intelligent Innovation

- Innovation is the only sustainable form of differentiation

'Co-innovation' is innovation in partnership with our clients and partners. We jointly seek new ways to solve your business challenges and invent new solutions, helping you create a competitive advantage. We utilize an open-innovation framework with both internal and external innovation programs. Our Client Innovation Centres deliver an immersive experience, driving the development of a co-innovation roadmap for your future business and digital transformation goals.

- Client Engagement Centres

Our Client Engagement Centres showcase our innovations and technology solutions. To help you deliver a consistent client experience, we've created a standardized approach, by developing two distinct models: the Client Experience Centre (CEC) and the Client Innovation Centre (CIC). The CEC and CIC are both centres where we engage with you and demonstrate our capabilities to help you achieve your business and technology objectives.

There are significant differences in the agenda, purpose, engagement model, and advisory of the two Centres.

- The CEC accelerates today. We expose to you the innovative solutions we have at present to address your current technology estate. It provides you with inspiration, helping to visualize what is practically possible. It's designed to support your current challenges, as you begin or continue on your business transformation journey.
- The CIC innovates for future prosperity. The focus is on fostering long-term business and technical collaboration via a co-innovation agenda. It's designed to address transformational business outcomes, challenging the status quo, and testing the art of the possible. It creates new solutions for future benefit, while delivering value to your stakeholders.

Innovation through collaboration with InnerSourcing

- Innovation originates everywhere, by anybody, and in many forms

InnerSourcing leverages ideas, innovation, and intellectual property from every person in our company to innovate for you. It improves collaboration and the quality of solutions, while reducing time to market. The culture, practices, processes, and tools for InnerSourcing are inspired by open-source communities, enabled by modern agile processes, frameworks, and software. It provides innovative, client-centric solutions using emerging technologies in new ways, breaking through traditional organizational boundaries.

Strategic Report

for the Year Ended 31 March 2019

Principal risks and uncertainties

The Company's operations expose it to a variety of risks, therefore, the Company's operations, security, legal and finance departments have policies, protocols, procedures and practices for key functions and controls set out to manage and monitor potential risks. The highlights are as follows:

Credit risk: The Company is exposed to a credit risk relating to its trade debtors, which is largely mitigated by the fact that the Company mostly trades with major blue-chip organisations. Further, credit checks are carried out on counterparties which are either (1) new, or (2) represent a high risk e.g. geographical, political or cultural. In such cases, special arrangements are made as considered appropriate.

Interest rate risk: The Company is exposed to interest rate movements on its inter-company loan funding, which is therefore closely monitored by management.

Foreign exchange rate risk: The Company has a portion of net assets (relating to the European branches) in Euros. The Company is therefore exposed to foreign exchange risk from movement against sterling, which is closely monitored by management.

Global Uncertainty: The result of the Brexit referendum has led to some substantial fluctuations in foreign exchange rates vs GBP as the markets dislike uncertainty. This might impact the figures of the next financial year as the Company's European branches mainly operate in local (euro) currency and part of the cost-base is in non-European currencies. Economic uncertainty globally could also result in lower revenues due to a slower quote to sale cycle, and a general reluctance for customers to migrate from their existing platforms onto newer IT infrastructure solutions. Signs of a trade war between the US and China, and the US and the EU are emerging further compounding global economic uncertainty. This situation is being carefully monitored by management.

New laws and regulations: Following Brexit, new UK laws may be imposed on companies to ensure compliance with existing EU laws that may increase costs for the Company. Our legal and compliance team is monitoring this.

Outage to net-work or IT system risk: Attacks on our network or IT system may result in service interruptions and impact our customers resulting in revenue loss and reputation. Our networks have resilience and security features inbuilt, and they are regularly tested in accordance with our business continuity and disaster recovery plans.

Security breaches: The Company may be vulnerable to security breaches which could disrupt operations and have adverse effects on operating and financial performance. Our security systems are updated and monitored on a regular basis.

Strategic Report

for the Year Ended 31 March 2019

Key performance indicators

The Company monitors performance using the indicators below:

Turnover from continuing operations:

To monitor the continuous improvement of the business operational activities.

During 2019, the Company's continuing turnover increased by 0.24% compared with 2018 (2019 turnover £254.4m; 2018 turnover: £253.8m).

Profit before tax:

To focus on Company profitability and maintaining profitability through cost control and increasing revenues.

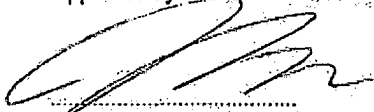
The Company achieved profit before tax £10.4m in 2019, compared with a profit before tax of £7.6m in 2018.

EBITDA: Earnings before interest, taxes, depreciation, and amortisation.

To assess the company's financial performance for the year ended 31 March 2019.

EBITDA indicates increase of 7.5% to £24.2m in 2019 from the £22.5m achieved in 2018.

Approved by the Board on 13/09/19 and signed on its behalf by:



M Shimizu

Company secretary 20 Sept. 2019

Directors' Report

for the Year Ended 31 March 2019

The directors present their report and the financial statements for the year ended 31 March 2019.

Proposed dividend

The directors do not recommend the payment of a dividend (2018: £Nil).

Directors of the Company

The directors who held office during the year and subsequently up to the date of this report, unless otherwise stated were as follows:

C Hamilton

T Yamaguchi

H Nishioka (appointed 12 April 2018)

T Sakae (appointed 3 October 2018)

H Masuda (resigned 12 April 2018)

T Koike (resigned 3 October 2018)

M Davis (resigned 31 January 2019)

Political and charitable contribution

The Company made no political or charitable donations during the year (2018: £Nil).

Disclosure of information to the auditors

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 the 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.

Employee policies

The Company takes its responsibilities under the Disability Discrimination Act 1995 very seriously and ensures equal access and opportunity for all employees.

Employee communication is undertaken in a variety of forms, including regular newsletters and the development of a communications phone app for employees. There is also a regular blog by the managing director on current issues facing the company. Each financial year begins with regional kick off events where financial results and strategy is communicated to employees and there are Q&A sessions to ensure a two way dialogue.

Post balance sheet event

On 1 July 2019, the company transferred its entire issued share capital from its current shareholder Nippon Telegraph and Telephone Corporation to NTT Ltd.

Qualifying third party indemnity provisions

The Company has made qualifying third party indemnity provisions for the benefit of its directors and these remain in force at the date of this report.

NTT Europe Ltd

Directors' Report

for the Year Ended 31 March 2019

Auditor

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

Approved by the Board on 13/09/19 and signed on its behalf by:



M Shimizu

Company secretary 20 Sept. 2019

Statement of Directors' Responsibilities in respect of the Strategic Report, 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 the directors have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 apply them consistently;
- make judgements and accounting 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

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 such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NTT EUROPE LIMITED

Opinion

We have audited the financial statements of NTT Europe Ltd (the 'Company') for the year ended 31 March 2019, which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; 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

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

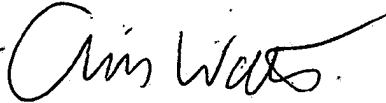
Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Chris Walters (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London, E14 5GL

Date: 20 SEPTEMBER 2019

Statement of Comprehensive Income

for the year ended 31 March 2019

	Note	2019 £ 000	2018 £ 000
Turnover	3	254,357	253,756
Cost of sales		<u>(171,671)</u>	<u>(173,908)</u>
Gross profit		82,686	79,848
Operating costs		(72,433)	(70,611)
Other operating income		<u>186</u>	<u>191</u>
Operating profit	4	10,439	9,428
Other interest receivable and similar income	8	373	22
Interest payable and similar charges	9	<u>(438)</u>	<u>(1,870)</u>
Profit on ordinary activities before taxation		10,374	7,580
Tax on profit on ordinary activities	10	<u>(2,721)</u>	<u>(1,688)</u>
Profit for the financial year		7,653	5,892
Other comprehensive income			
Foreign exchange differences on translation of foreign operations		<u>(219)</u>	<u>(26)</u>
Total comprehensive income for the year		<u>7,434</u>	<u>5,866</u>

The results stated above were derived from continuing operations.

Statement of Financial Position

as at 31 March 2019

Registered number: 02307625

	Note	2019 £ 000	2018 £ 000
Fixed assets			
Tangible assets	11	26,185	29,177
Current assets			
Stocks	12	487	1,146
Debtors: Amounts falling due within one year	13	57,175	62,822
Debtors: Amounts falling due after more than one year	14	10,362	11,680
Cash at bank and in hand		50,416	52,964
		<u>118,440</u>	<u>128,612</u>
Creditors: Amounts falling due within one year	15	<u>(96,141)</u>	<u>(90,043)</u>
Net current assets		<u>22,299</u>	<u>38,569</u>
Total assets less current liabilities		<u>48,484</u>	<u>67,746</u>
Creditors: Amounts falling due after more than one year	16	-	(26,000)
Provisions for liabilities	18	<u>(78)</u>	<u>(774)</u>
Net assets		<u>48,406</u>	<u>40,972</u>
Capital and reserves			
Called up share capital	21	153,832	153,832
Profit and loss account		<u>(105,426)</u>	<u>(112,860)</u>
Shareholders' funds		<u>48,406</u>	<u>40,972</u>

Approved and authorised by the Board on 13/9/19 and signed on its behalf by:

C Hamilton

Director



20 SEPT 2019

The notes on pages 16 to 30 form an integral part of these financial statements.

Statement of Changes in Equity

for the Year Ended 31 March 2019

	<i>Called up Share capital £ 000</i>	<i>Profit & loss account £ 000</i>	<i>Total Equity £ 000</i>
Balance at 1 April 2017	153,832	(118,726)	35,106
Profit for the year	-	5,892	5,892
Other comprehensive income	-	(26)	(26)
Total comprehensive income	-	5,866	5,866
Balance at 31 March 2018	153,832	(112,860)	40,972
	<i>Called up Share Capital £ 000</i>	<i>Profit & loss account £ 000</i>	<i>Total Equity £ 000</i>
Balance at 1 April 2018	153,832	(112,860)	40,972
Profit for the year	-	7,653	7,653
Other comprehensive income	-	(219)	(219)
Total comprehensive income	-	7,434	7,434
Balance at 31 March 2019	153,832	(105,426)	48,406

The notes on pages 16 to 30 form an integral part of these financial statements.

Notes to the Financial Statements

for the Year Ended 31 March 2019

1 General information

NTT Europe Ltd (the "Company") is a company limited by shares and incorporated and domiciled in the UK. The registered office address is 1 King William Street, London, EC4N 7AR. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the Strategic Report between page 2-6.

2 Accounting policies

2.1 Basis of preparation of financial statements

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied.

The presentation currency of these financial statements is sterling.

All amounts in the financial statements have been rounded to the nearest thousands ('000).

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The Company's parent undertaking, NTT Communications Corporation includes the Company in its consolidated financial statements. The consolidated financial statements of NTT Communications Corporation are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from NTT Europe Ltd, 1 King William Street, London EC4N 7AR.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning of the period to end of the period;
- The requirements of Section 7 "Statement of Cash Flows" - Presentation of a Statement of Cash Flows and related notes; and
- Key management personnel compensation.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

Notes to the Financial Statements

for the Year Ended 31 March 2019

2 Accounting policies (continued)

2.2 Going concern

The financial statements have been prepared on a going concern basis. Long term funding has been obtained as detailed in note 17.

On 19 April 2016 the Company refinanced its debt. A loan of £27 million had been raised with NTT Finance, which was repayable in 3 years. On 26 April 2018 the Company made a repayment of £1m against this loan. On 26 April 2019, the Company made a repayment of £8m against this loan. On 26 April 2019 the Company refinanced the remainder of the loan of £18m, which is repayable in 2 years.

At 31 March 2019, the company had net current assets of £22.3m (2018: £38.6m), cash of £50.4m (2018: £53.0m) and committed undrawn loan facilities of £15m. The directors have prepared cash flow forecasts for the period to 31 March 2021 and are satisfied that the company will be able to meet its liabilities as they fall due.

Therefore, after taking into account the above factors, the directors believe that the Company can manage its business risks successfully and are satisfied that it has sufficient financial resources to enable them to continue operating in the foreseeable future. The directors therefore continue to adopt the going concern basis in preparing the Strategic Report, Directors' Report and financial statements. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

2.3 Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currency sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

The assets and liabilities of foreign operations, are translated to sterling at the exchange rate ruling at reporting date. The income and expenses of foreign operations are translated at rates approximating the exchange rates ruling at the dates of the transactions. Foreign currency differences in relation to foreign operations are recognised in other comprehensive income.

2.4 Basic financial instruments

Trade and other debtors/creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Notes to the Financial Statements

for the Year Ended 31 March 2019

2 Accounting policies (continued)

2.4 Basic financial instruments (continued)

The Company operates in the complex IT and telecommunications services industries and from time to time is exposed to claims from third parties arising from its activities. The Company has in place certain insurance and indemnity policies as part of its normal risk management process to mitigate this risk. Claims from third parties are included in "Accruals" in the Creditors note. Indemnity assets from insurers meeting the recognition criteria is included in the "Other debtors" in Debtors note.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise the cash balances and call deposits.

2.5 Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

2.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Telecommunication equipment	3-4 years
Fixtures, fittings and other equipment	3-4 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

2.7 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell.

2.8 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Notes to the Financial Statements

for the Year Ended 31 March 2019

2 Accounting policies (continued)

2.8 Expenses (continued)

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. 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. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

2.9 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 recognised at the best estimate of the amount required to settle the obligation at the reporting date.

2.10 Turnover

Turnover represents invoiced sales exclusive of value added tax and discounts for services. Set-up and other one-time charges are either recognised upon completion of the work or amortised over the period of the contract in line with the nature of the services provided.

For Network and Professional services these charges are recognised upon completion of the work and hand-over to the customer, for Cloud/Data-centre services these charges are being amortized on a straight-line basis over the life of the respective sales contract as this is when the risks and rewards are transferred to the customers.

2.11 Employee Benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Notes to the Financial Statements

for the Year Ended 31 March 2019

2 Accounting policies (continued)

2.12 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 timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met to the extent that it is probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference.

Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

3 Turnover

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2019 £ 000	2018 £ 000
<i>By activity</i>		
Services Rendered	240,341	235,197
Sale of goods	14,016	18,559
	<u>254,357</u>	<u>253,756</u>

Notes to the Financial Statements

for the Year Ended 31 March 2019

3 Turnover (continued)

	2019 £ 000	2018 £ 000
<i>By geographical market</i>		
Europe	190,460	187,642
United States of America	8,051	6,802
Rest of the world	55,846	59,312
	<u>254,357</u>	<u>253,756</u>

Turnover for set up costs relating to Managed Services are recognised over the length of the contract, while Network Service upfront costs are considered one time and recognised on completion of services.

4 Operating profit

Arrived at after charging/ (crediting):

	2019 £ 000	2018 £ 000
Depreciation - owned	13,809	13,118
Rentals under operating leases - plant and machinery	-	488
Rentals under operating leases - land and buildings	35,035	22,313
Loss/(Profit) on disposal of fixed assets	<u>12</u>	<u>(2)</u>

5 Auditor's remuneration

The company paid the following amounts to its auditor:

	2019 £ 000	2018 £ 000
Fees for the audit of the company	<u>177</u>	<u>172</u>

There have been no non-audit fees incurred by the Company and payable to the Company's auditor during the year is £nil (2017: £nil).

Notes to the Financial Statements

for the Year Ended 31 March 2019

6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2019 No.	2018 No.
Sales	170	143
Administration	90	132
Operating	353	331
	<u>613</u>	<u>606</u>

The aggregate payroll costs (including directors' remuneration) were as follows:

	2019 £ 000	2018 £ 000
Wages and salaries	37,755	37,398
Social security costs	5,965	5,763
Contributions to defined contribution plan	1,393	1,293
Other personnel costs	2,055	2,491
	<u>47,168</u>	<u>46,945</u>

7 Directors' remuneration

The directors' remuneration for the year was as follows:

	2019 £ 000	2018 £ 000
Aggregate remuneration in respect of qualifying services	<u>1,000</u>	<u>701</u>
Aggregate pensions in respect of qualifying services	<u>44</u>	<u>22</u>
Aggregate remuneration in respect of highest paid directors	<u>694</u>	<u>403</u>

Other directors' emoluments are borne by other companies within the Nippon Telegraph and Telephone Corporation group and not included above as the directors' services do not occupy a significant amount of their time. As such, they do not consider that they received any remuneration for their incidental services to the company for either period presented.

Notes to the Financial Statements

for the Year Ended 31 March 2019

8 Other interest receivable and similar income

	2019 £ 000	2018 £ 000
Interest income on bank deposits	5	22
Net foreign exchange gain	368	-
	<u>373</u>	<u>22</u>

9 Interest payable and similar charges

	2019 £ 000	2018 £ 000
Net foreign exchange loss	-	1,519
Interest payable on financial liabilities at amortised cost	438	351
	<u>438</u>	<u>1,870</u>

10 Taxation

Total tax expense recognised in the profit and loss account

	2019 £ 000	2018 £ 000
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UK corporation tax:

Current tax on income for the period	645	173
Adjustment in respect of previous periods	(130)	-
	<u>515</u>	<u>173</u>

Foreign tax:

Current tax on income for the period	-	(27)
Foreign tax suffered	888	-
	<u>888</u>	<u>(27)</u>

Total current tax charge for the period

	<u>1,403</u>	<u>146</u>
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Deferred tax

Origination and reversal of timing differences	1,387	889
Adjustment in respect of previous periods	77	13
Effect of changes in tax rates	(146)	640

Total deferred taxation

	<u>1,318</u>	<u>1,542</u>
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Total tax

	<u>2,721</u>	<u>1,688</u>
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Notes to the Financial Statements

for the Year Ended 31 March 2019

10 Taxation (continued)

Factors affecting tax charge for the period:

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 19% (2018 - 19%).

The difference between tax as per the financial statements and tax at UK standard rate is explained below:

	2019 £ 000	2018 £ 000
Profit on ordinary activities before tax	10,374	7,580
Current tax at 19% (2018: at average of 19%)	1,971	1,440
Effects of		
Expenses not deductible	68	85
Foreign tax	888	(27)
Deferred tax not provided	-	(493)
Adjustment from previous period	(52)	13
Tax rate changes	(146)	640
Foreign exchange difference on fixed assets	(8)	30
Total tax for the period	2,721	1,688

Factors that may affect the current and total tax charge in future periods

The Company has tax losses available to carry forward to offset against future taxable profits of £4.3m (2018: £7.7m).

A reduction in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) was substantively enacted on 8 July 2015 with further reductions to 18% (effective from 1 April 2020). An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 16 March 2016. This will reduce the company's future tax charge accordingly. The deferred tax asset at 31 March 2019 has been calculated based on these rates.

Notes to the Financial Statements

for the Year Ended 31 March 2019

10 Taxation (continued)

Deferred tax

Deferred tax included in the balance sheet is as follows:

	2019 £ 000	2018 £ 000
Provision at start of period	11,680	13,222
Adjustment in respect of prior years	(78)	(13)
Deferred tax charge to income statement for the period	<u>(1,240)</u>	<u>(1,529)</u>
Provision at end of period	<u>10,362</u>	<u>11,680</u>
	2019 £ 000	2018 £ 000
Accelerated capital allowances	9,281	9,938
Short term timing differences — trading	358	427
Tax losses carried forward	<u>723</u>	<u>1,315</u>
Deferred tax asset	<u>10,362</u>	<u>11,680</u>

Deferred tax assets of £9.3m (2018: £9.9m) in respect of timing differences resulting from depreciation in excess of capital allowances, and £0.7m (2018: £1.3m) in respect of trading losses, have been recognised during the financial year ended 31 March 2019.

Notes to the Financial Statements

for the Year Ended 31 March 2019

11 Tangible fixed assets

	<i>Telecommunication equipment £ 000</i>	<i>Leasehold improvements and other equipment £ 000</i>	<i>Total £ 000</i>
Cost:			
Balance at 1 April 2018	83,053	7,030	90,083
Opening reclassification	(7)	7	-
Additions	7,955	2,927	10,882
Disposals	(11,303)	(625)	(11,928)
Exchange differences	(675)	(47)	(722)
Balance at 31 March 2019	79,023	9,292	88,315
Depreciation:			
Balance at 1 April 2018	57,662	3,244	60,906
Opening reclassification	(3)	3	-
Charge for the year	12,703	1,106	13,809
Disposals	(11,286)	(623)	(11,909)
Exchange differences	(636)	(40)	(676)
Balance at 31 March 2019	58,440	3,690	62,130
Net book value			
At 31 March 2019	20,583	5,602	26,185
At 31 March 2018	25,391	3,786	29,177

12 Stocks

	<i>2019 £ 000</i>	<i>2018 £ 000</i>
Finished goods	487	1,146

Stock is purchased specifically for projects and released to the cost of goods sold when related income is recognised.

Notes to the Financial Statements

for the Year Ended 31 March 2019

13 Debtors: Amounts falling due within one year

	2019 £ 000	2018 £ 000
Trade debtors	30,643	29,972
Amounts owed by group undertakings	11,123	11,359
Prepayments	9,727	14,027
Accrued income	5,334	5,899
Other debtors	348	1,565
	<u>57,175</u>	<u>62,822</u>

14 Debtors: Amounts falling due after more than one year

	2019 £ 000	2018 £ 000
Deferred tax assets	<u>10,362</u>	<u>11,680</u>

15 Creditors: Amounts falling due within one year

	2019 £ 000	2018 £ 000
Loans repayable to group companies	26,000	1,000
Amounts owed to group undertakings	42,424	60,016
Trade creditors	8,517	7,315
Other creditors	2	3,321
Social security and other taxes	1,694	-
Accruals	12,189	13,758
Deferred income	3,915	4,633
Corporation tax liability	<u>1,400</u>	<u>-</u>
	<u>96,141</u>	<u>90,043</u>

16 Creditors: Amounts falling due after more than one year

	2019 £ 000	2018 £ 000
Loans repayable to group companies (Note 17)	<u>-</u>	<u>26,000</u>

Notes to the Financial Statements

for the Year Ended 31 March 2019

17 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the company's interest-bearing loans and borrowings, which are measured at amortised cost.

2019	2018
£ 000	£ 000

Loans repayable to group companies

Creditors: Amounts falling due within one year	26,000	1,000
Creditors: Amounts falling due over one year	-	26,000

On 19 April 2016 the company signed an agreement with NTT Finance for a loan of £27 million repayable by 26 April 2019. Interest will be charged at a rate of LIBOR + 0.89. The loans above are denominated in Sterling at an average annual interest rate of 0.9% in accordance with the terms of the signed loan agreements.

On 26 April 2018 the Company made a repayment of £1m against this loan. On 26 April 2019, the Company made a repayment of £8m against this loan. On 26 April 2019 the Company refinanced the remainder of the loan of £18m, which is repayable in 2 years.

18 Provisions for liabilities

	Total £ 000
Balance at 1 April 2018	774
Provisions used during the year	(696)
Balance at 31 March 2019	78

Total provision recognised at year end £78k (2018: £0.8m) relate to: £Nil redundancy costs (2018: £0.5m) and £78k dilapidation cost (2018: £0.3m).

Notes to the Financial Statements

for the Year Ended 31 March 2019

19 Operating Leases

Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2019 £ 000	2018 £ 000
Operating leases which expire:		
Within one year	23,041	21,815
Within two to five years	53,314	52,163
Over five years	45,330	59,107
	<u>121,685</u>	<u>133,085</u>

During the year £24,232,000 was recognised as an expense in the profit and loss account in respect of operating leases (2018- £20,690,000).

20 Employee Benefits

Defined contribution plans

The company operates several defined contributions pension plans.

The total expense relating to these plans in the current year was £1,393,000 (2018: £1,293,000).

21 Capital and reserves

	2019 £ 000	2018 £ 000
Allotted, called up and fully paid		
1,538,323 ordinary shares of £100 each	<u>153,832</u>	<u>153,832</u>
Shares classified in shareholders' funds	<u>153,832</u>	<u>153,832</u>

Notes to the Financial Statements

for the Year Ended 31 March 2019

22 Related parties

The voting rights of the Company are entirely controlled by its ultimate parent undertaking, Nippon Telegraph and Telephone Corporation. As a result, the Company has taken advantage of the exemptions available in FRS 102 1.12(d) within these financial statements and has not disclosed transactions with entities which are wholly owned by Nippon Telegraph and Telephone Corporation. As at the 31 March 2019 amounts receivable from group companies total £4.2m and amounts payable to group companies £55.8m of which £26m is the loan payable.

23 Post balance sheet event

On 1 July 2019, the company transferred its entire issued share capital from its current shareholder Nippon Telegraph and Telephone Corporation to NTT Ltd.

24 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Nippon Telegraph and Telephone Corporation, which is the ultimate parent company incorporated in Japan.

The smallest group in which they are consolidated is headed by NTT Communications Corporation, NTT Hibiya Building 1-1-6 Uchisaiwai-cho, Chiyoda-ku, Tokyo 100-8019, Japan. A company incorporated in Japan. The consolidated financial statements of these groups are available to the public and by written application from NTT Europe Ltd, 1 King William Street, London EC4N 7AR.