

## **Hitachi Capital (UK) PLC**

### **Annual Report and Financial Statements** Year Ended 31 March 2016

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Registered Office: Hitachi Capital House, Thorpe Road, Staines-upon-Thames, Surrey TW18 3HP.  
Registered in Cardiff No: 1630491.

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## At a Glance

### Who we are

Hitachi Capital (UK) PLC (HCUK) is a leading financial services company with over 30 years' experience in providing innovative finance solutions, to enable consumers and businesses to grow and prosper. We are a wholly owned subsidiary of Hitachi Capital Corporation, one of Japan's largest non-bank financial institutions and part of Hitachi Limited, recognised as a world leader for manufacturing and technology.

### Our vision and values

Our vision is to be the trusted brand of financial services in the UK and across Europe with exceptional people providing outstanding customer experiences today.

Fair treatment of our customers is central to our business and is reflected in the company's culture, financial products, management, controls and communications. We are authorised and regulated by the Financial Conduct Authority (FCA) and currently hold interim permission status for consumer credit and appointed representative for insurance activity whilst awaiting confirmation for full permission to be granted. We have embraced the new regulation and it is consistent with our mission to provide an outstanding customer experience.

Our values being "Harmony", "Sincerity" and "Pioneering spirit" reflect the best aspects of our Japanese heritage and are consistent with those of Hitachi Limited.

### What we do

The Group has Net Earning Assets of £3.8bn with over 1,100 employees serving consumers and small to medium enterprises (SME's) as well as corporate multinationals in the UK and mainland Europe.

We focus on markets where we can provide innovative solutions and require high service levels and commitment to customer care. By providing a service which is valued by our customers and having the vision to be a "trusted brand of financial services", treating customers fairly is core to our culture and core to our values of "harmony" and "sincerity".

Net Earning Assets	£3.8bn
Profit before tax	£96.1m

## Our target sectors

### Consumer Finance

Hitachi Capital Consumer Finance is the UK's retail finance leader, providing over £1 billion of consumer lending each year to 1 million UK customers. The business has over 30 years of experience and works with some of the biggest names on the high street as well as providing motor finance and personal loans. It has supported retail in the UK by increasing lending year on year for the last nine years.

### Vehicle Solutions

Hitachi Capital Vehicle Solutions has more than 25 years of experience of providing bespoke vehicle funding and fleet management services for business car leasing and specialist commercial vehicles. Offering a variety of financing options including contract hire, contract purchase, finance and operating leasing, Hitachi Capital Vehicle Solutions also provides advice regarding health and safety and fleet environmental impact. Hitachi Capital Polska (formerly Corpo Flota) was acquired by the Group in April 2014 offering a variety of financing options and additional services for business car leasing in the Polish market, it is expanding its product and services capabilities to significantly grow Hitachi Capital's presence in Poland.

### Business Finance

Hitachi Capital Business Finance is a leading provider of business asset finance in sectors including transport, agriculture, construction, manufacturing, materials handling and financial services providers. Working through finance brokers and with manufacturers directly, our products include hire purchase, operating lease, finance lease, block discounting, stock finance and syndication services. Hitachi Capital arranges, provides and guarantees funding for a variety of Hitachi Ltd products and services in markets throughout Europe. These facilities are arranged through strategic local partners or provided directly by HCUK.

### Invoice Finance

Hitachi Capital Invoice Finance provides cash flow solutions to over 650 clients across a wide range of sectors in the UK and places great emphasis on outstanding service to UK SMEs as well as transparent and simple pricing.

## Highlights 2016

- £2.5bn of new business whilst retaining some of our largest retail and vehicle clients against strong competition.
- Record profit before tax of £96.1m, 14% increase from prior year.
- Net Earning Assets as at end of 31 March 2016 was £3.8bn, 14% increase from prior year.
- £100m Securitisation programme with British Business Bank providing funding to SME's in the UK.
- New Board and Executive Committee structures implemented to enhance governance.
- Charitable donations of £0.2m providing valuable contributions to charities including Macmillan, Royal Brompton and Harefield NHS Trust along with matching of employees' Give As You Earn (GAYE) and fund raising during the year.

## Divisional Highlights

<b>Consumer Finance</b> <ul style="list-style-type: none"> <li>• Over 1m customers</li> <li>• New business of £1.7bn</li> <li>• 19% growth in Personal Finance</li> <li>• Net Earning Assets of £2.1bn</li> <li>• Strong year with successful client retention and introduction of new approach to motor finance leveraging skills and experience gained in retail sector</li> <li>• Your Money - 'Best Direct Personal Loan Provider 2015' in the latest Your Money Awards 2015</li> <li>• The Personal Finance Awards 2014/15 – Best Unsecured Loans Provider</li> <li>• Accredited by the Institute of Customer Service, Service Mark, the national customer service standard</li> </ul>	<b>Vehicle Solutions &amp; Hitachi Capital Polska (formerly Corpo Flota)</b> <ul style="list-style-type: none"> <li>• New business of £334m</li> <li>• Net Earning Assets of £610.6m (20% increase from prior year)</li> <li>• Retention of our key strategic partners</li> <li>• Commercial Fleet Award 2015 – Van and Truck Fleet Management and Leasing Company of the Year</li> <li>• Commercial Fleet Award 2015 – Supplier of the Year</li> </ul>
<b>Business Finance</b> <ul style="list-style-type: none"> <li>• New business of £500m</li> <li>• Strong growth in Block discounting and Hitachi Group business</li> <li>• Net Earnings Assets of £854.7m</li> <li>• Most Supportive Lender of the Year award from the National Association of Commercial Finance Brokers (NACFB)</li> <li>• "Highly commended" at Business Moneyfacts awards for Best Leasing &amp; Asset Finance Provider, Best Business Motor Finance provider, and Innovation in the SME Finance sector for Hitachi Capital 'The Cloud'</li> <li>• Launched apprentice scheme with NACFB to bring young talent into the industry</li> </ul>	<b>Invoice Finance</b> <ul style="list-style-type: none"> <li>• New business of £25.8m</li> <li>• 'Inspired Payroll' launched for SME's in the recruitment industry</li> <li>• 'Factoring Lender of the Year' at the (ACQ (Acquisition Finance Magazine) Global Awards</li> <li>• "Inspired Cashflow" named ABL Product of the Year at the M&amp;A Today Global Awards</li> </ul>

Our strategy of offering value added financial products and superior customer service in our chosen markets has produced excellent progress across our diversified financial services portfolio. Looking to the future, we expect this trend to continue in the forthcoming years and we remain confident we can continue to build on the Hitachi brand, working with the wider Hitachi family to develop exciting new opportunities for the business.

## Group Strategic Report

The directors present their strategic report for Hitachi Capital (UK) PLC (the Company) and its subsidiaries (the Group) for the year ended 31 March 2016. The group financial statements comprise the consolidated financial statements of the Company, including its subsidiaries as defined by International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Despite a number of uncertainties across the global economy, Hitachi Capital (UK) PLC enjoyed another year of strong growth in assets and increased profitability. Our brand recognition continues to build both through continued growth in the market of the Hitachi Personal Finance product along with positive publicity and industry recognition. We are well funded (note 14), and do not enter into speculative transactions, but focus on providing a high level of service to our customers in our chosen markets. Utilising our industry knowledge we provide innovative financial solutions to help our customers finance the purchase or hire of assets. Upholding our brand and reputation is integral to being part of the Hitachi Group and therefore treating customers fairly is part of our culture and our financial products must be reliable and our people must be trustworthy. We are honest and open with our customers and business partners, which creates co-operation and a desire to provide financial solutions for our customers which meet their requirements. By pursuing these simple important values, the Group has enjoyed profitable growth and we are delighted to be providing a consistent level of service to our customers and business partners. Our relationship with Hitachi Limited as a valued strategic partner throughout Europe continues to grow.

In 2015/16 the Group transacted loan and leasing business of £2.5 billion, which represented a 6.3% increase over the prior year and an increase in profit before tax to £96.1m (2015: £84.1m) as consumer finance and leasing solutions in the UK were sought from the non-bank sector. We expect this growth to continue as UK consumers and businesses place increasing reliance on the non-bank sector to provide financial solutions for asset purchases or hire.

Our focus has primarily been in the UK, where we benefit from very open disclosure of financial information and rich consumer credit information to enable us to make an appropriate assessment of risk. The Group charge for bad debt and impairment was £16.2m (2015: £14.8m), which reflects the significant growth and maturing of our portfolio, as well as the Group's management of credit risk and improvements in our provisioning processes to identify potential bad debt issues earlier in their cycle. This level of bad debts at 0.4% of assets, consistent with the prior year, is slightly below industry average whilst our long term expectations remains at 0.7% of assets.

The financial services we provided were recognised by customers and industry experts as our business units won numerous awards during the year including the Your Money "Best Direct Personal Loan Provider" award and Commercial Fleet "Supplier of the Year" award.

The Consumer Finance ("HCCF") operation has continued to grow and diversify the offering from retail point of sale to a direct offering to UK consumers. Retailer point of sale finance accounted for 65% of HCCF's £1.7 billion new business for the year as we enabled retailers to sell more goods by providing a variety of financing arrangements to assist their customers. New business was 8.4% up over the previous year mainly due to HCCF's successful diversification to direct to consumer personal finance and the provision of car loans. HCCF has been awarded The Institute of Customer ServiceMark, reflecting our focus on delivering an excellent customer service experience.

We experienced strong growth in our Vehicle Solutions ("HCVS") division with organic growth of our existing fleet customers providing us with new business volume up 7% at £318m (2015: £298m). We continue to provide innovative solutions for our customers, in line with our parent Company's vision to build "a better society through technology", particularly in our commercial vehicles business. We have significantly expanded our associates channel during the year, utilising the broker market to drive volumes of business supporting SMEs.

The Business Finance ("HCBF") operation grew new business volumes by 1.9% over the previous financial year to £500m as we developed our commercial offering through brokers. We have continued to service the UK market well and HCBF is well established as a leading independent provider in the sector. With the introduction of on-line proposal input and credit auto-decisioning, and management and process improvement, our customer satisfaction rates continue to improve, directly resulting in more business and the ability to win vendor accounts with distributors and manufacturers.

The year to March 2016 saw modest growth for Invoice Finance ("HCIF") 2% increase in clients coming after three years of growth in excess of 10% pa. This planned period of consolidation enabled the business to focus on outstanding client experience and product innovation with key developments being the continued investment in our people and the launch of the new 'Inspired Payroll' product for the recruitment industry, which has already seen significant sales and been shortlisted for Innovation of the Year in the Business Money Facts 2016 awards.

## Group Strategic Report (continued)

Hitachi Capital continues to deepen its relationship with Hitachi Limited in Europe. We aspire to be the principal partner of Hitachi Limited, structuring and leading financial solutions for their operations in Europe. As a business, we believe the strengthening of this relationship will be beneficial for the Hitachi Group. Since creating this business three years ago, we have organised financing programmes for Hitachi Group companies in Turkey, Poland, France, Spain, Italy and Portugal. The programmes are set up with partners who we support with sales and marketing support and guarantees for which we earn fee income. We expect this business to develop rapidly over the forthcoming years as our coverage of Europe increases and we make small acquisitions in Europe to support our existing business segments.

Our insurance business, Hitachi Capital Insurance Europe Limited, which was placed in run off in April 2009, returned a break even position (2015: £0.6m). All policies have expired and the business was put into member's voluntary liquidation on 21 October 2015. The company received capital repayment of £5m on 29 January 2016 (note 3).

The results for the Company and the Group are set out in the financial statements on pages 14 to 18, and the analysis of operating segments and revenue is detailed in notes 4 and 5 respectively.

The Key Performance Indicators ("KPIs") presented below reflect the indicators management used during 2015/16.

KPIs	2016	2015
Profit before Tax	<b>£96.1m</b>	£84.1m
Pre-Tax Return on Net Earning Assets	<b>2.6%</b>	2.6%
Bad Debt Ratio	<b>0.4%</b>	0.4%
Net Earning Assets	<b>£3.8b</b>	£3.3b
Number of Employees	<b>1,138</b>	1,051

Profit before tax was £96.1m, 14.3% higher than prior year driven by growth in Net Earning Assets.

The number of employees grew by 8% to meet the growing needs of the Group.

Administration expenses for the year increased by 13% to £111.4m due to our significant growth and expenditure directed at information technology, which is essential for us to effectively compete in the future.

The effective tax rate was 20% (2015: 21%). It is expected that the effective rate of tax will be stable for the coming year.

The post-tax return on equity was 25.6% (2015: 28.3%) driven by continued business growth and management of credit risk. The year on year decrease in the return on equity reflects higher equity in the Group due to a small increase in Other Comprehensive Income (OCI) during the year together with the current dividend policy as detailed below.

HCUK's dividend policy is to retain 70% of Profit after Tax and pay 30% as dividend. However, HCUK has currently agreed with HC not to make dividend pay-outs in order to build its retained profit balance and lower its debt to equity multiple. This voluntary decision by the HCUK Board is going to target a reduction in the debt to equity multiple from 12 x to circa 8 x in order to benefit both external credit rating and HMRC Thin Capitalisation factors. Therefore, interim dividend in the year was £nil (2015: 13.3p) per share and the directors have recommended that no further dividend (2015: 33.3p) per share will be proposed for the year ended 31 March 2016.

During 2014/15 we implemented a balanced scorecard, which sets out 5 specific areas of focus for the Group (Financial, Customer, Business Process, Innovation & Growth and Talent Management & Succession), laying out the initiatives required to achieve our long-term objectives. We monitor progress against these regularly at Board Committees, to ensure that we have a clear link between our strategic objectives and the initiatives undertaken by each business unit to achieve these.

A recently completed interim valuation of our final salary pension scheme and consultation with the trustees has concluded that the plan is currently in surplus on an accounting basis. The surplus calculated on the IAS19 basis at 31 March 2016 was £1.7m (2015: £0.6m). The increase in surplus principally reflects reduction in liabilities of the scheme mainly due to increase in discount rates during the year, as well as continual accrual of service by active members.

The Group has a central treasury function, which manages the Group's borrowings in accordance with agreed policies and procedures. Debt is raised taking into account each business unit's requirements and portfolio maturity profile. We raise multi-currency fixed and floating debt in the major global markets. Derivatives are utilised to mitigate currency and interest rate risks. Analysis of borrowings is detailed in note 14 and derivative financial instruments are summarised in note 13. The gearing, after reflecting the effect of currency risk hedging, is 10.5 times (2015: 11.5 times) and is well within the limit of 25 times equity set out in the Company's Articles of Association.

## Group Strategic Report (continued)

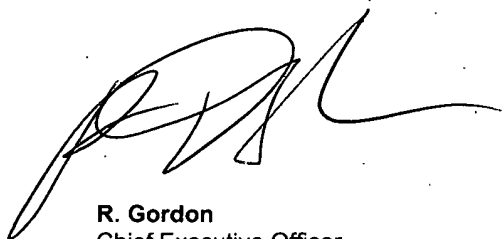
Principal risks and uncertainties are set out in note 29. In addition, during the year a number of risks were considered and dealt with in order to minimise the impact on the Group's performance and ability to meet its objectives. These included the uncertain economic environment, including GDP growth, inflation and unemployment, which is mitigated by a mixed portfolio of financing products and a cautious approach to lending, ensuring our customers can afford their commitments. In addition, the potential operational risk of service disruption to customers as a result of failed systems, cyber-attacks or breaches of security, with adverse effects on the Group's reputation, operations and financial conditions are mitigated by controls and investment directed through our Board Committees, including the Information Security Committee, ISO 27001 accredited information security management system and business continuity planning. We are authorised and regulated by the FCA and currently hold interim permission status for consumer credit and appointed representative for insurance activity whilst awaiting confirmation for full permission to be granted. Management of employees is detailed in the Directors' Report.

Our strategy of offering value added financial products and superior customer service in our chosen markets will produce positive results in the forthcoming years and we remain confident we can continue to build on the Hitachi brand. Hitachi Capital (UK) PLC will continue to co-operate with other Hitachi Capital Corporation and Hitachi Limited companies worldwide in developing business opportunities.

The names of the directors who served during the year are detailed in the Directors' Report on page 10.

On behalf of the Board, I thank all our employees for their commitment and contribution and our customers, bankers and funders for their continuing loyalty and support.

By order of the Board:

A handwritten signature in black ink, appearing to be 'R. Gordon', written over a horizontal line.

**R. Gordon**  
Chief Executive Officer  
9 June 2016

## Corporate Governance Statement

The Board is committed to high standards of corporate governance. Although the Company is not subject to the UK Corporate Governance Code, the Board takes into account the principles and provisions of the Code to the extent that the Board considers them to be proportionate and relevant to the Company, bearing in mind the size and complexity of the Company and the nature of the risks and challenges it faces. This corporate governance statement describes the Company's corporate governance structure and the main features of its internal control and risk management systems in relation to the financial reporting process.

### Board of Directors

As explained in the 2015 Annual Report, in June 2015 the Board adopted a number of recommendations made by external consultants following a review of the Company's corporate governance ("Effectiveness Review"). During the remainder of the financial year, the Board, and the newly formed Group Executive Committee described below, have worked on implementing those recommendations.

During the year under review, the Board comprised two non-executive directors and four executive directors. In line with the recommendations of the Effectiveness Review, the Board reassessed the size and composition of the Board and resolved to increase the proportion of non-executive directors whilst ensuring that the Board maintained the appropriate balance of skills, experience, independence and knowledge of the Group to lead the Company effectively. Accordingly, three new non-executive directors (including an independent non-executive director) joined the Board on 1 April 2016, three of the executive directors, and one of the non-executive directors, having resigned from the Board with effect from 31 March 2016. During the current financial year, the Board intends to appoint at least one additional independent non-executive director.

The Board will now take on more of a supervisory role, delegating day to day responsibility for managing the Group's business to the Group Executive Committee (described below) and holding the Chief Executive Officer to account. The Board plans to hold eight scheduled meetings each year, with ad hoc meetings being convened as and when necessary.

There is a formal schedule of matters specifically reserved for decision by the Board, underpinned by policies which describe those matters in more detail. The Board intends to take the opportunity to review this schedule and decide which, if any, of the reserved matters ought to be more appropriately delegated to the Group Executive Committee to promote the efficient management of the Group's businesses.

### Board Committees

The Board delegates certain defined responsibilities to committees, each of which have written terms of reference. Following the Effectiveness Review, the Board reviewed the remit and composition of its existing committees and their terms of reference as well as forming new committees to strengthen further the Company's corporate governance structure and its effectiveness. The composition and work of these committees is described below.

### Group Executive Committee

This committee was formed as a result of the Effectiveness Review and is responsible for leading the day to day management of the Group. The committee consists of the Chief Executive Officer, Chief Operating Officer, the Managing Directors of the Group's four business units, the Group Business Development Director, the Finance Director and the Directors of the Group's various central support functions.

Terms of reference for the committee have been approved by the Board and the committee holds face to face meetings every month, with additional teleconference calls being held as and when appropriate. The committee provides the forum for the executive team to shape and agree the vision, mission, strategy and values, in alignment with those of the shareholder, for recommendation to the Board for approval. The committee is then accountable to the Board for delivering the approved vision, mission and strategy in line with the Group's agreed values.

### Audit and Risk Committee

The Audit and Risk Committee carries out the functions required by rule 7.1.3 of the Disclosure and Transparency Rules. The committee currently comprises Nicholas Carter (chair), Robert Gordon (Chief Executive Officer), Anne Whitaker (Chartered Accountant and non-executive director) and Hiroyuki Fukuro (non-executive director). In the opinion of the Board, Anne Whitaker is independent and has competence in both accounting and auditing as required by rule 7.1.1 of the Disclosure and Transparency Rules.



## **Corporate Governance Statement (continued)**

### **Audit and Risk Committee (continued)**

The committee, which has a quorum of two, meets at least four times a year, coinciding with key dates in the financial reporting and audit cycle. The external auditors attend meetings by invitation in order to ensure that all the information required by the committee is available for it to operate effectively. Executive directors and the heads of relevant Group functions such as the Head of Group Compliance and Head of Information Security also attend meetings at the invitation of the committee. The committee meets separately with the external auditors whenever it considers it appropriate.

The committee's responsibilities are set out in its terms of reference, which include monitoring the financial reporting process and the statutory audit of the annual consolidated accounts, reviewing the findings of the external auditors and reviewing the effectiveness of the Group's internal control and risk management systems. The committee keeps under review the independence and objectivity of the Group's external auditor, value for money of the audit and the nature, extent and cost effectiveness of the non-audit services provided by the auditor.

The committee satisfies itself that any safeguards required by ethical guidance regarding the provision of non-audit services are implemented. The committee also receives regular updates on the implementation of, and compliance with, certain aspects of Japan's Financial Instruments and Exchange Law (J-SOX) in order, for example, to assure itself that the Group continues to satisfy its parent company, that it remains compliant with the legislation.

The Group Compliance function, which is independent of the business units, provides the committee with regular reports which detail any regulatory breaches and include summaries of customer complaints data and relating trends.

The Operational Risk Committee also reports to the Audit and Risk Committee and escalates risk issues to members of the committee as and when appropriate.

### **Operational Risk Committee**

During the year, the Operational Risk Committee was formed in accordance with the findings of the Effectiveness Review. The committee meets on a monthly basis and its remit includes all operational risks which are not dealt with by the specialist risk committees described later in this report. The committee has formal terms of reference approved by the Board, which include the responsibility to advise both the Board and the Audit & Risk Committee on the Company's overall risk appetite, tolerance and strategy and to oversee, and to advise both the Board and the Audit & Risk Committee on, the current risk exposures of the Company, and to keep under review the Company's overall risk assessment processes. Members of the Operational Risk Committee include the Chief Operating Officer (chair), Legal Director, IT Director, HR Director, Head of Group Compliance, Head of Internal Audit and Head of Information Security.

### **Disclosure Committee**

Although no longer subject to the UK Listing Authority's listing rules, the Company has retained its Disclosure Committee. The role of this committee is to identify and assess matters which could have a material effect on the Company's financial performance and to ensure that such matters are communicated to the Board, the Company's parent (Hitachi Capital Corporation) and the trustees of the Group's pension scheme. The committee comprises the Chief Executive Officer, Chief Operating Officer and Hiroyuki Fukuro, a non-executive director, has a quorum of two and normally meets twice a year.

### **Remuneration Committee**

The role of this committee includes agreeing the policy for remuneration of the executive management and approving their individual remuneration packages, ensuring that appropriate incentives exist at all levels and overseeing any major changes in employee benefit structures across the Group. The committee also reviews and approves the design of long term incentive plans, bonus and commission schemes operated by the Group. The members of the committee are Nicholas Carter (chair), Anne Whitaker and Yoshikazu Ohashi. The committee has a quorum of two and normally meets twice a year.

### **Nomination Committee**

In line with the recommendations of the Effectiveness Review, the Board has reconstituted the Company's Nomination Committee, in order to ensure that there is a formal, rigorous and transparent procedure for the appointment of new directors. The Board has adopted formal terms of reference, setting out the composition of the committee, its role and the level of authority delegated to it. The committee comprises Nicholas Carter (chair), Anne Whitaker, Yoshikazu Ohashi, Hiroyuki Fukuro and Robert Gordon and has a quorum of two. The committee will meet twice a year and at such other times as the chairman of the committee requires.

## **Corporate Governance Statement (continued)**

### **Treasury Committee**

The purposes of this committee include determining the Group's funding plans within parameters set by the Board, reviewing and approving transactions proposed or conducted by the Group Treasurer, implementing the Group hedging strategy and ensuring that borrowing covenants and limits are not breached.

Normally chaired by the Chief Operating Officer, the committee also includes the Chief Executive Officer, and Group Treasurer. The committee meets monthly and has a quorum of two.

### **Investment Management Committee**

The role of this committee is to determine an annual budget based upon the Group strategic plan and make recommendations to the Board for approval, for both capital and operating expenditure within the budgets agreed by the Board, to decide the priorities for investment and resources in line with the Group strategic plan, and to set the governance process for change management for the business units and the Group as a whole.

The committee is normally chaired by the Chief Operating Officer and its members include other executive directors as well as the heads of relevant business units and functions. The committee meets every month (and otherwise as required) and has a quorum of three.

### **Credit Risk Committee**

This committee provides a key element of an effective second line of defence behind the risk management functions within the Group's business units. Its functions include setting the Group's credit risk appetite, optimising the quality of the Group's earnings and customer base, and managing exceptional risks and major exposures by sanctioning applicable credit proposals.

Voting rights are restricted to full members of the committee, who include the Chief Executive Officer, Chief Operating Officer (chair), Director of Credit Risk (deputy chair) and the risk managers from the four business units in the Group. Meetings of the committee are held at least every quarter and a minimum of three full members (including the chair or deputy chair) must be present for a meeting to be quorate.

### **Information Security Committee**

The Company has a written information security policy and an information security management system, based on the requirements of the international standard for information security management (ISO 27001), including an Information Security Committee. Amongst other things, this committee is responsible for formulating, reviewing and recommending appropriate improvements to the Company's information security policies and information security system. The committee also has responsibility for promoting awareness of information security, ensuring that the information security system is implemented and reviewing internal information security audits and information security incidents.

Members of the Committee include the Chief Operating Officer, Head of Information Security (chair), Legal Director, HR Director, IT Director and other senior managers in the Group IT function. The committee meets monthly and requires at least three members, including the Chief Operating Officer or IT Director, in order to be quorate.

### **Treating Customers Fairly ("TCF") Forum**

The purpose of the TCF Forum is to champion the principle of Treating Customers Fairly and to provide a forum for senior management to review and assess whether management information being collected is measuring customer outcomes effectively, to identify any issues and agree and follow up necessary actions, and to ensure that decisions and conclusions are documented.

Membership of the forum includes representatives from each of the business units which transact regulated business (each of which has its own divisional TCF forum or equivalent), the Chief Executive Officer, the Legal Director (chair), the Head of Compliance and the HR Director. The forum meets monthly and has a quorum of five members.

### **Internal Control and Risk Management**

The Board is responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. The system of internal control and risk management includes controls designed to safeguard assets against unauthorised use, to maintain proper accounting records and to ensure the reliability of financial information. The system of internal control and risk management is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can provide only reasonable rather than absolute assurance against material misstatement, loss or fraud.

The Board confirms that there is an appropriate ongoing process for identifying, evaluating and managing the significant risks faced by the Group which has been in place throughout the year ended 31 March 2016 and up to the date of approval by the Board of the annual report and financial statements.

## Corporate Governance Statement (continued)

The key elements of the internal control system include the following:

- There is a clearly defined board and board committee structure in place, with terms of reference setting out membership, roles and responsibilities.
- Organisational structures are in place which allow clear delegation of authorities and responsibilities throughout the Group.
- Detailed annual budgets aligned with the corporate strategy are reviewed and approved by the Board. Regular progress reports and results are reviewed by the Board or one of its committees and actions are taken as appropriate.
- Systems and procedures are in place to identify, control and report on the major risks facing the Group. The Audit and Risk Committee, supported by the Operational Risk Committee, is responsible for coordinating this process and for making recommendations to the Board.
- The Operational Risk Committee improves the robustness of the day to day management of operational risk and the effectiveness of risk management systems and procedures. This committee maintains an overview of the areas of greatest risk to the business, along with the internal control processes designed to address those risks, and monitors compliance with policies and the effectiveness of the control structures across the Group.
- The Group SOX Manager reports to the Chief Executive Officer and also has direct access to the chairman of the Audit and Risk Committee. In addition there are regular internal audit reviews of key business units in the Group by the internal audit teams of Hitachi Capital Corporation and Hitachi Limited.

The Board, through the Audit and Risk Committee, has reviewed the effectiveness of the system of internal control, including financial, operational and compliance controls and risk management through representations from management and the independent monitoring undertaken by the internal control function. In addition, the Group's external auditor presents to the Audit and Risk Committee reports that include details of any significant internal control matters which it has identified. Weaknesses identified during the course of these reviews have been incorporated into action plans. None of the weaknesses have given rise to material loss, contingency or uncertainty requiring disclosure in the annual accounts.

During the year under review, as part of its commitment to a "three lines of defence" risk management model, the Group commissioned a review by Ernst & Young LLP of its internal control function, with a view to strengthening its third line of defence which (to the extent they are relevant) meets the requirements of the guidelines published by the Chartered Institute of Internal Auditors.

Throughout the year ended 31 March 2016, the Group complied with the J-SOX legislation, using the COSO framework, as a consequence of Hitachi Limited being listed on the Tokyo Stock Exchange. The key elements of the process included the following:

- Detailed scoping and planning from a quantitative and qualitative perspective, identification of the key processes and mapping of significant accounts with associated financial statement assertions.
- Documenting and walk through of entity level, IT general controls and business process controls to ensure design effectiveness.
- Extensively testing all key controls to ensure operational effectiveness.
- A remediation management programme to resolve exceptions as they arose.
- Final management assessment of all controls.
- Audit of the process through monitoring by internal auditors from Hitachi Capital Corporation.

Consolidated accounts are prepared using Oracle Financials and key balances are reconciled on a regular basis to relevant information to ensure their integrity.

By order of the Board.



J.N.M.Sims  
Company Secretary  
9 June 2016

## Directors' Report

The Board of Directors present their annual report and audited financial statements for the year ended 31 March 2016 for Hitachi Capital (UK) PLC (registered company number 1630491).

### Results and Dividends

The results of the Group for the year ended 31 March 2016 are set out in the consolidated income statement on page 14. No interim dividend was paid during the year (2015: £5.7m, 13.3p per share). The directors do not recommend any final dividend for the year (2015: £14.2m, 33.3p per share) and therefore no dividends were paid for the year to 31 March 2016 (2015: £19.9m, 46.6p per share). Further details regarding the dividend are set out in note 20 to the financial statements.

### Outlook

The Group's future outlook is detailed in the Group Strategic Report on pages 3-5.

### Employees

The Board is conscious that the Group's ability to succeed is driven by the need to attract, develop and retain the right employees. Our employee relations policy is designed to encourage an atmosphere of trust and harmony across the organisation and the Group is committed to the personal development of its employees.

The Group is committed to regular and timely communication to staff of information on matters of concern to them as employees, including both briefings and written communications. The Group has an intranet site which acts as the main reference point in the provision of a wide variety of information to employees. Staff briefings are held at the various sites to disseminate key information and regular team and one to one meetings are encouraged. During the year, the Group has maintained the arrangements aimed at ensuring that employees' views can be taken into account in making decisions which are likely to affect their interests. Employee representatives are elected as and when necessary to meet the Group's consultation requirements.

The Group takes part in the "Best Companies to work for" survey, measuring on an annual basis the key themes leading to improved employee engagement. In addition to demonstrating where we can build on our strengths, the survey also highlights areas for continued improvement. Focus this year has been on organisational clarity, personal growth, fair deal and wellbeing. Hitachi Capital (UK) PLC achieved a one star Best Companies rating.

The Group operates an annual bonus scheme for all staff levels where a large proportion of bonus potential is based on the Group and individual business unit financial performance thereby encouraging the involvement of all employees in the Group's performance. Regular updates on performance ensure that all employees are aware of the financial and economic factors affecting the Group's performance.

The Group operates an equal opportunities policy and opposes all forms of unlawful discrimination on the grounds of sex, marital status, sexual orientation, disability, race, creed, colour, nationality, religion, age, or any other personal characteristics. The Group's selection criteria and procedures will ensure that individuals are treated on the basis of their abilities so that all employees are given equal opportunity to progress within the Group. The Group's policy and practice is to encourage the recruitment, training, career development and promotion of disabled persons having regard to their particular aptitudes and abilities and to retain and re-train employees who become disabled whilst in the employment of the Group.

### Directors

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

N.Carter  
R.Gordon  
G.Grimes (resigned on 31 March 2016)  
K.Kuchimura (resigned on 31 March 2016)  
S.Oliphant (resigned on 31 March 2016)  
C.Shirai (resigned on 31 March 2016)

On 1 April 2016, Hiroyuki Fukuro, Yoshikazu Ohashi and Anne Whitaker were each appointed as non-executive directors of the Company.

In accordance with the Company's Articles of Association, each of the directors serving at the date of this report will retire by rotation at the 2016 AGM and, being eligible to be re-appointed, will offer themselves for re-appointment at that meeting.

## Directors' Report (continued)

### Directors (continued)

#### Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report and 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 International Financial Reporting Standards (IFRSs), as adopted by the European Union, and ensure that such financial statements comply with the Companies Act 2006. 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 the Group.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and accounting estimates that are reasonable.
- State whether applicable IFRS's have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities:

Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the Group's auditors are unaware.
- The director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

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

#### Qualifying Indemnity Provisions

By virtue of Article 85 of the Articles of Association of the Company, qualifying indemnity provision (within the meaning given by sections 234 and 235 of the Companies Act 2006) is in force at the date of this report in respect of each director of the Company (and each director of its subsidiaries) and was in force throughout the year ended 31 March 2016 in respect of each person who was a director of the Company (or one of its subsidiaries) at any time during that year.

#### Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group Strategic Report starting on page 3. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Strategic Report, the financial statements starting on page 14 and the notes to the financial statements. In addition, the notes to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

As part of the directors' ongoing assessment of going concern, they have considered the budget forecasts for the Group as well as cash flow projections for at least 12 months from the date of approval of the financial statements. The Group has strong long term prospects and has access to considerable financial resources. The Directors expect that the Group will continue to grow its assets and increase profitability in its chosen financial markets in the coming year. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors are satisfied that appropriate facilities are currently, and will continue to be, available for the foreseeable future. A central treasury function provides finance for the Group's operations and manages treasury risks in accordance with policies approved by the Board and the Treasury Committee. The Group has access to, and capacity in, existing funding programmes. These programmes include:

- Euro medium term note and commercial paper programmes for which Hitachi Capital Corporation acts as guarantor.
- Securitisation facilities, which management renegotiates at each maturity date.
- Group loan facilities available from the wider Hitachi Limited group and bank borrowings.

## **Directors' Report (continued)**

### **Going Concern (continued)**

It is the directors' intention to continue to utilise existing facilities and seek additional funding as required to meet the funding needs of the business. Liquidity risk and funding management issues are covered in more detail within note 29 to the financial statements.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### **Financial Instruments**

The Group uses financial instruments to mitigate risk which are detailed in note 29 to the financial statements.

### **Auditors**

In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as auditors of the Company and Group is to be proposed at the forthcoming Annual General Meeting.

### **Corporate Governance Statement**

The corporate governance statement is on pages 6 to 9 of this annual report.

By order of the Board.



**J.N.M.Sims**  
Company Secretary  
9 June 2016

**Hitachi Capital (UK) PLC**  
Registered Office: Hitachi Capital House,  
Thorpe Road, Staines-upon-Thames,  
Surrey TW18 3HP.  
Registered in Cardiff No: 1630491.

## Independent Auditor's Report to the Members of Hitachi Capital (UK) PLC

We have audited the financial statements of Hitachi Capital (UK) PLC for the year ended 31 March 2016 which comprise consolidated income statement, consolidated statement of comprehensive income, statement of financial position – consolidated and company, statement of changes in equity – consolidated and company statement of cash flows – consolidated and company and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 Statement of Directors' Responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016 and of the group's and the parent company's profit for the year then ended;
- The financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company 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.



**Steven Robb (Senior statutory auditor)**  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
9 June 2016

## Consolidated Income Statement

For the Year Ended 31 March 2016

	Note	Group 2016 £m	Group 2015 £m
<b>Revenue</b>	<b>5</b>	<b>538.9</b>	<b>529.1</b>
Finance costs		(47.5)	(41.4)
Depreciation and impairment of operating leased assets	10	(138.0)	(136.7)
Maintenance expense on operating leased vehicles		(28.4)	(28.3)
Other cost of sales	6	(101.6)	(125.8)
<b>Cost of sales</b>		<b>(315.5)</b>	<b>(332.2)</b>
<b>Gross profit</b>		<b>223.4</b>	<b>196.9</b>
Bad debts impairment charge	12	(16.2)	(14.8)
Administrative expenses	7	(111.4)	(98.4)
		(127.6)	(113.2)
<b>Operating profit</b>		<b>95.8</b>	<b>83.7</b>
Fair value gain on derivative financial instruments	13	0.3	0.4
<b>Profit before tax</b>		<b>96.1</b>	<b>84.1</b>
Income tax expense	8	(19.4)	(17.7)
<b>Profit after tax</b>		<b>76.7</b>	<b>66.4</b>



## Consolidated Statement of Comprehensive Income

For the Year Ended 31 March 2016


	Note	Group 2016 £m	Group 2015 £m
<b>Profit for the year</b>		<b>76.7</b>	<b>66.4</b>
<b>Other comprehensive income:</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent period:			
(Loss)/gain on cash flow hedges taken to cash flow hedge reserve		0.7	(14.2)
Income tax effect	8	(0.3)	2.8
		0.4	(11.4)
Exchange difference on translation of foreign operations		0.4	(0.2)
Income tax effect	8	-	-
		0.4	(0.2)
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<b>0.8</b>	<b>(11.6)</b>
Other comprehensive income not to be reclassified to profit or loss in subsequent period:			
Re-measurement of defined benefit pension scheme	22	1.1	(3.8)
Income tax effect	8	(0.2)	0.8
		0.9	(3.0)
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>		<b>0.9</b>	<b>(3.0)</b>
<b>Other comprehensive income for the year, net of tax</b>		<b>1.7</b>	<b>(14.6)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>78.4</b>	<b>51.8</b>
Attributable to:			
Equity holders of the parent		78.4	51.8
Non-controlling interests		-	-
<b>Total comprehensive income for the year, net of tax</b>		<b>78.4</b>	<b>51.8</b>

## Statement of Financial Position – Consolidated and Company

As at 31 March 2016

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
<b>Assets:</b>					
<b>Non current assets:</b>					
Intangible assets	11	16.1	17.4	7.0	8.0
Investment in subsidiaries	3	-	-	7.5	12.5
Property, plant and equipment	10	668.2	569.6	38.5	44.3
Loans and receivables	12	1,846.8	1,661.5	2,300.0	2,056.5
Derivative financial instruments	13	53.0	33.1	53.0	33.1
Deferred tax asset	9	0.6	-	5.1	4.4
Retirement benefit asset	22	1.7	0.6	1.7	0.6
		<b>2,586.4</b>	<b>2,282.2</b>	<b>2,412.8</b>	<b>2,159.4</b>
<b>Current assets:</b>					
Loans and receivables	12	1,248.0	1,059.5	1,241.8	1,056.8
Derivative financial instruments	13	50.6	8.3	50.6	8.3
Inventories	16	11.3	11.5	0.8	0.2
Trade and other assets	17	57.7	53.6	8.1	8.6
Corporation tax debtor		-	-	-	6.4
Cash	18	2.1	7.7	36.6	-
		<b>1,369.7</b>	<b>1,140.6</b>	<b>1,337.9</b>	<b>1,080.3</b>
<b>Total assets</b>		<b>3,956.1</b>	<b>3,422.8</b>	<b>3,750.7</b>	<b>3,239.7</b>
<b>Equity and liabilities:</b>					
<b>Equity and reserves attributable to equity holders:</b>					
Share capital	19	10.7	10.7	10.7	10.7
Share premium		15.6	15.6	15.6	15.6
Retained earnings		287.1	224.6	191.3	141.8
Other components of equity		(14.3)	(16.0)	(14.3)	(15.7)
<b>Total equity</b>		<b>299.1</b>	<b>234.9</b>	<b>203.3</b>	<b>152.4</b>
<b>Non current liabilities:</b>					
Interest bearing loans and borrowings	14	1,938.3	1,681.6	1,923.8	1,681.4
Derivative financial instruments	13	30.4	84.9	30.4	84.9
Trade and other payables	23	53.6	51.1	53.6	51.1
Provisions	21	1.2	1.8	0.9	1.5
Deferred tax liability	9	-	1.9	-	-
		<b>2,023.5</b>	<b>1,821.3</b>	<b>2,008.7</b>	<b>1,818.9</b>
<b>Current liabilities:</b>					
Bank overdrafts	18	4.7	11.2	2.6	7.4
Interest bearing loans and borrowings	14	1,404.2	1,092.1	1,389.9	1,078.1
Derivative financial instruments	13	17.1	69.3	17.1	69.3
Current tax liability		12.8	3.7	11.5	0.1
Provisions	21	23.5	23.0	22.6	22.6
Trade and other payables	23	171.2	167.3	95.0	90.9
		<b>1,633.5</b>	<b>1,366.6</b>	<b>1,538.7</b>	<b>1,268.4</b>
<b>Total liabilities</b>		<b>3,657.0</b>	<b>3,187.9</b>	<b>3,547.4</b>	<b>3,087.3</b>
<b>Total equity and liabilities</b>		<b>3,956.1</b>	<b>3,422.8</b>	<b>3,750.7</b>	<b>3,239.7</b>

The financial statements were approved by the board, authorised for issue on 9 June 2016 and signed on its behalf by:

  
R. Gordon  
Chief Executive Officer

## Statement of Changes in Equity – Consolidated and Company

For the Year Ended 31 March 2016

	Note	Share Capital £m	Share Premium Account £m	Retained Earnings £m	Other Reserves £m	Total £m
<b>GROUP</b>						
<b>At 31 March 2014</b>		<b>10.7</b>	<b>15.6</b>	<b>175.8</b>	<b>(1.4)</b>	<b>200.7</b>
Profit for the period		-	-	66.4	-	66.4
Other comprehensive income		-	-	-	(14.6)	(14.6)
Total comprehensive income		-	-	66.4	(14.6)	51.8
Dividends	20	-	-	(17.6)	-	(17.6)
<b>At 31 March 2015</b>		<b>10.7</b>	<b>15.6</b>	<b>224.6</b>	<b>(16.0)</b>	<b>234.9</b>
Profit for the period		-	-	76.7	-	76.7
Other comprehensive income		-	-	-	1.7	1.7
Total comprehensive income		-	-	76.7	1.7	78.4
Dividends	20	-	-	(14.2)	-	(14.2)
<b>At 31 March 2016</b>		<b>10.7</b>	<b>15.6</b>	<b>287.1</b>	<b>(14.3)</b>	<b>299.1</b>

	Note	Share Capital £m	Share Premium Account £m	Retained Earnings £m	Other Reserves £m	Total £m
<b>COMPANY</b>						
<b>At 31 March 2014</b>		<b>10.7</b>	<b>15.6</b>	<b>103.5</b>	<b>(1.4)</b>	<b>128.4</b>
Profit for the period		-	-	55.9	-	55.9
Other comprehensive income		-	-	-	(14.3)	(14.3)
Total comprehensive income		-	-	55.9	(14.3)	41.6
Dividends	20	-	-	(17.6)	-	(17.6)
<b>At 31 March 2015</b>		<b>10.7</b>	<b>15.6</b>	<b>141.8</b>	<b>(15.7)</b>	<b>152.4</b>
Profit for the period		-	-	63.7	-	63.7
Other comprehensive income		-	-	-	1.4	1.4
Total comprehensive income		-	-	63.7	1.4	65.1
Dividends	20	-	-	(14.2)	-	(14.2)
<b>At 31 March 2016</b>		<b>10.7</b>	<b>15.6</b>	<b>191.3</b>	<b>(14.3)</b>	<b>203.3</b>

## Statement of Cash Flows – Consolidated and Company

For the Year Ended 31 March 2016

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
<b>Operating activities:</b>					
Profit before tax		96.1	84.1	78.9	69.3
Non cash adjustment to reconcile profit before tax to net cash					
Depreciation and impairment of property, plant and equipment	10	141.2	140.2	11.7	10.9
Depreciation and impairment of intangible assets	11	1.7	2.3	1.4	1.4
Net (gain)/loss on disposal operating lease assets		(9.2)	(10.0)	(1.0)	(0.1)
Net (gain)/loss on disposal of property, plant and equipment		(0.3)	0.6	-	(0.1)
Net (gain)/loss on disposal of intangible assets		-	-	0.2	-
Fair value (gain)/loss on derivative financial instruments	13	(0.3)	(0.4)	(0.3)	(0.3)
Defined benefit pension scheme charge to income statement	22	0.7	0.5	0.7	0.5
Working capital adjustments:					
Increase in receivables		(377.6)	(584.7)	(427.8)	(603.9)
Increase in payables & provisions		6.3	27.6	6.0	32.6
Decrease/(increase) in inventories		0.2	(1.9)	(0.6)	0.1
Cash contributions to defined benefit pension scheme	22	(0.7)	(0.7)	(0.7)	(0.7)
Purchase of operating leased assets	10	(318.3)	(287.4)	(5.0)	(7.2)
Proceeds from sale of operating leased assets	5	91.0	117.7	1.9	1.5
Income tax paid		(13.5)	(35.2)	1.4	(22.1)
<b>Net cash flows from operating activities</b>		<b>(382.7)</b>	<b>(547.4)</b>	<b>(333.2)</b>	<b>(518.1)</b>
<b>Investing activities:</b>					
Purchase of property, plant and equipment (non operating leases)	10	(3.0)	(6.6)	(1.7)	(3.4)
Capitalised software purchase & development costs	11	(0.7)	(1.5)	(0.6)	(1.5)
Proceeds from sale of property, plant and equipment (non operating leases)		0.2	1.1	-	-
Payments to acquire intangible assets	30	-	(1.2)	-	-
Acquisition of subsidiary	30	-	-	-	(3.3)
Repayment of capital contribution from Hitachi Capital Insurance Europe Limited		-	-	5.0	-
<b>Net cash flows used in investing activities</b>		<b>(3.5)</b>	<b>(8.2)</b>	<b>2.7</b>	<b>(8.2)</b>
<b>Financing activities:</b>					
Dividends paid to shareholders	20	(14.2)	(17.6)	(14.2)	(17.6)
Funding received		938.6	686.2	923.8	671.8
Funding paid		(537.7)	(131.2)	(537.7)	(131.2)
<b>Net cash flows from/(used in) financing activities</b>		<b>386.7</b>	<b>537.4</b>	<b>371.9</b>	<b>523.0</b>
Net (decrease)/increase in cash and bank overdrafts		0.5	(18.1)	41.4	(3.4)
Net foreign exchange difference		0.4	(0.3)	-	-
Cash and bank overdrafts at beginning of year		(3.5)	14.9	(7.4)	(4.1)
<b>Cash and bank overdrafts at end of year</b>	18	<b>(2.6)</b>	<b>(3.5)</b>	<b>34.0</b>	<b>(7.4)</b>
Current assets - cash	18	2.1	7.7	36.6	-
Current liabilities - bank overdrafts	18	(4.7)	(11.2)	(2.6)	(7.4)
<b>Cash and bank overdrafts at end of year</b>	18	<b>(2.6)</b>	<b>(3.5)</b>	<b>34.0</b>	<b>(7.4)</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 1. Corporate Information

The consolidated financial statements of the Group for the year ended 31 March 2016 were authorised for issue by the directors on 9 June 2016. Hitachi Capital (UK) PLC is a public limited company incorporated in the United Kingdom. The address of the registered office is given at the end of this report as is information on the ultimate parent undertaking. The principal activities of the Group are described in note 4.

### 2. Accounting Policies

#### 2.1 Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), as adopted by the European Union, and applied in accordance with the Companies Act 2006. Under section 408 (3) of the Companies Act 2006, the Company has not included its own income statement or statement of comprehensive income.

The financial statements have been prepared in accordance with the going concern principle under the historical cost basis, except for derivative financial instruments which are measured at fair value. The financial statements are presented in pound sterling and all values are rounded to the nearest million, except when otherwise indicated. Certain comparatives have been re-classified to be consistent with current year presentation.

#### 2.2 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2016. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. During the year, Hitachi Capital Polska's (formerly Corpo Flota) financial reporting period has been brought in line with that of the Group to give coterminous financial reporting periods. As a result, Hitachi Capital Polska (formerly Corpo Flota) will prepare financial statements for 15 calendar months to 31 March 2016. For purposes of consolidating, Hitachi Capital Polska's (formerly Corpo Flota) financial reporting period is adjusted for as if the financial statements were prepared for 12 calendar months to 31 March, to bring it into line with the rest of the Group. All intra Group balances, transactions and dividends are eliminated in full.

#### 2.3 Summary of Significant Accounting Policies

##### (a) Business Combinations & Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill on acquisition is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 2.3 Summary of Significant Accounting Policies (continued)

#### (b) Foreign Currency Translation

The presentational currency of the Group and the Company is pound sterling. The functional currency of the Company and its UK subsidiaries is pound sterling, which is the currency of the primary environment in which the Group operates. The functional currency of Hitachi Capital Polska (formerly Corpo Flota) is Polish Zloty which is translated to pound sterling upon consolidation. The cumulative translation gains or losses arising from this are reported and presented as part of HCUK Group's Other Comprehensive Income ("OCI").

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

In order to hedge its exposure to foreign exchange risks, the Group mostly enters into cross currency swaps, the accounting policies of which are set out in notes 2.3(k) and 2.3(l).

#### (c) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes.

#### Interest Income

Interest and other charges earned on instalment finance and other loan agreements are credited to the income statement over the life of the agreement using the effective interest rate method such that a constant rate of return is earned in proportion to the capital balances outstanding. Initial direct costs are recognised over the life of the agreement, on the same basis as revenues.

#### Lease Income

Amounts due from lessees under finance lease or hire purchase agreements are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

#### Sale of Inventory

Revenue from the sale of inventory is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on transfer of the physical goods.

#### Fee Income and expenses

The Group earns fee income and incurs related expenses from a diverse range of services it provides to its customers. Fee income and expenses can be divided into the following categories:

##### i. Fee income from retailers

These are earned on instalment finance and other loan agreements and they are credited to the income statement over the life of the agreement using the effective interest rate method such that a constant rate of return is earned in proportion to the capital balances outstanding.

##### ii. Fee income from customers

These are earned on instalment finance, other loan and lease agreements and they are credited to income statement in the period in which services are delivered.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 2.3 Summary of Significant Accounting Policies (continued)

#### iii. Other income relating to loans, receivables and lease agreements

These relate to loans, receivables and leasing activities and they are credited to income statement in the period in which the service is delivered.

#### iv. Fee and commission expenses

These are largely related to loans and receivables and they are debited to the income statement over the life of the agreement using the effective interest rate method such that a constant rate of return is earned in proportion to the capital balances outstanding. Where these are not directly attributable to loans and receivables, they are debited to the income statement in the period in which services are delivered.

#### (d) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

#### Group as a Lessor

Lease and hire purchase agreements are classified as finance leases whenever the terms of the agreement transfer substantially all the risks and benefits of ownership to the lessee. All other leases are classified as operating leases.

The initial recognition of a finance lease includes all initial direct costs of the lease and the present value of the minimum lease payments under the lease terms. Assets leased under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. The basis for recognition of finance lease income and rental income is outlined in 2.3(c) above.

#### Group as a Lessee

Operating lease payments are recognised as an administrative expense in the income statement on a straight line basis over the lease term.

#### (e) Insurance

In terms of accounting for the run off of the insurance book, IFRS 4 has been applied and, where this standard does not provide sufficient guidance, the Statement of Recommended Practice (SORP) has been used.

#### (f) Taxes

##### Current Income Tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

##### Deferred Tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 2.3 Summary of Significant Accounting Policies (continued)

#### (f) Taxes (continued)

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

The deferred tax assets and liabilities have been offset for reporting purposes on the basis that deferred tax predominantly arises in respect of items taxable within the same jurisdiction (UK) and it is expected that a right of set-off will exist when the items reverse, in accordance with IAS 12.

#### (g) Property, Plant and Equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes expenditure directly attributable to the acquisition of property and equipment. Subsequent cost is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost can be measured reliably. Maintenance and repairs, which do not meet these criteria, are charged against income as incurred.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

- |   |                                      |
|---|--------------------------------------|
| • Freehold buildings                        | 50 years                             |
| • Leasehold improvements                    | Remaining expected term of the lease |
| • Fixtures, fittings and computer equipment | 4 years                              |
| • Motor vehicles                            | 3 to 6 years                         |

Depreciation of operating leases assets was calculated over the term of the lease using either a straight line basis or reducing balance method depending on which method most accurately reflects the economic usage of individual tranches of assets. The change in depreciation methodology for certain assets to reducing balance during year ended 31 March 2015 was applied under IFRS for assets which have a revenue profile which was closely aligned to the reducing balance method. However, Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) was issued in May 2014 and applicable from 1 January 2016. This clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. Depreciation of operating leases on a reducing balance method is therefore no longer appropriate and the additional depreciation created by the use of this method will be written back prospectively over the remaining life of the assets.

Those assets which have not changed to reducing balance have been assessed and it has been concluded that it is appropriate under IFRS to retain a straight line depreciation method.

The reducing balance adjustment applied during the year increased the depreciation charge for the year by £11.1m (2015: £13.1m). The impact of moving to straight line depreciation during the current year is £0.9m.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed by comparing their carrying value with their value in use, at least annually and adjusted prospectively, if appropriate. Where the company has an interest in the residual value of certain operating leased assets, these values are reviewed on a regular basis and, where necessary, any variance from the exposure is recognised by the company and charged or credited to the income statement over the remaining lives of the operating leases of the assets concerned.

#### (h) Investment in subsidiaries

Investments in subsidiaries are initially and subsequently measured at cost. These are assessed for impairment in line with accounting policy detailed in note 2.3(r).



## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 2.3 Summary of Significant Accounting Policies (continued)

#### (i) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Acquired intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an acquired intangible asset is reviewed at least annually. The amortisation expense on acquired intangible assets is recognised in the income statement.

An internally generated intangible asset arising from the Group's software development projects is recognised only if all of the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and,
- The development cost of the asset can be reliably measured.

Internally generated software development assets are amortised on a straight line basis over their useful lives, determined to be four years. The amortisation period and amortisation method are reviewed at least annually. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period. At each reporting date, the Group reviews the carrying amount of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Irrespective of whether there is any indication of impairment, the Group also tests the recoverable amount of intangible assets not yet available for use at least annually.

The amortisation expense on Intangible assets is recognised in the statement of profit or loss as administration expenses.

Any gains or losses arising from the derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

#### (j) Financial Assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. All financial assets are recognised on the trade date initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss.

#### Loans and Receivables

Trade receivables, instalment finance agreements and other loans and advances that have fixed or determinable payments that are not quoted on an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method less impairment. Interest is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Amounts included in the statement of financial position under loans and receivables that represent amounts due from lessees under finance lease agreements are recognised in accordance with the Group's accounting policy on leases.

The effective interest rate method calculates the amortised cost of a financial asset and allocates interest income over the relevant period. The effective interest rate discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the financial asset.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 2.3 Summary of Significant Accounting Policies (continued)

#### (j) Financial Assets (continued)

##### Impairment of Financial Assets

Financial assets other than those at fair value through profit or loss are assessed for indicators of impairment at each quarter end. Impairment is recognised when there is objective evidence that a loss has been incurred in relation to an exposure.

For finance leases and other commercial loans and advances, the allowance for impairment losses is determined on an individual basis by reference to past default experience and other recoverability information relating to the specific loan or other receivable. Management assesses each impairment on a case by case basis where evidence of impairment exists and calculations of incurred loss are performed by considering current facts and circumstances of the exposure. Recoverable amounts are assessed with reference to the expected future cash flows on the loan arrangements, including considering estimates of security value (internal or professional valuation) as well as capacity for payment and timing of recoveries.

For consumer finance agreements, which comprise large numbers of small homogenous assets with similar risk characteristics, allowance for impairment losses is supplemented by statistical techniques used to calculate impairment allowance on a portfolio basis. Agreements which are known to be impaired, such as when a counterparty is declared bankrupt, are fully impaired in the first instance. For all other agreements, where an indicator of potential impairment exists, such as payment default, the portfolio approach is adopted whereby historical write off percentages are applied by product, retailer and arrears category. Likelihood of customer default and losses incurred is estimated regularly and these estimates are modelled on historical experience, which factors in past behaviours to determine loss rates. The portfolio is segmented by current payment status and incurred loss is calculated using the probabilities applied against payment data.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the allowance account to the extent the carrying amount of the asset at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Amounts charged to the allowance account are written off against the carrying amount of the impaired financial asset when all avenues to recover the asset have been fully utilised and management deems further recovery remote.

The Group does not renegotiate the terms of financial assets as a matter of course. However, when the terms of financial assets that are past due or impaired are renegotiated (by exception only), the income statement is charged with the write down of the asset to its revised carrying value, and credited with any previous provision made against the asset.

#### (k) Financial Liabilities

Financial liabilities are classified as financial liabilities at amortised cost or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

##### Interest Bearing Borrowings

Borrowings are normally measured at amortised cost using the effective interest rate method, with interest expense measured on an effective yield basis. However, where the borrowings are in a fair value hedging relationship they are recorded at fair value, net of transaction costs.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial liability. The corresponding interest expense is presented within Finance cost in the income statement for the period.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 2.3 Summary of Significant Accounting Policies (continued)

#### (k) Financial Liabilities (continued)

##### Retailer Liability

The retailer liability arises through contractual terms with certain retailers whereby a portion of the cash flows financed are deferred and held by the Group to cover possible future losses. These deferred amounts are therefore recorded as liabilities by the Group, as they remain the property of the retailer until either losses arise or each vintage of financing agreements matures. The vintage refers to a group of agreements inceptioned in a given month. As credit losses arise on finance agreements which are subject to these contractual terms, the associated amount of deferral is released to the extent necessary to cover credit losses on each finance agreement and is off set against the associated bad debt charge in accordance with the contractual terms established with the retailer. As a result, credit losses arising from agreements which are subject to these contractual terms have no effect on the Group's income statement unless the amount of credit loss recorded is greater than the amount of deferred retailer cash held by the Group. In the event that the retailer liability is not consumed by losses before the end of the related loan period, the balance is returned to the retailer upon final maturity of each annual vintage of agreements. Retailer liability is recorded within other liabilities on the statement of financial position.

#### (l) Derivative Financial Instruments

The Group enters into a variety of derivative financial instruments to hedge its exposure to variation in interest and foreign exchange rates including cross currency swaps and interest rate swaps. The Group does not use derivative financial instruments for speculative purposes.

Wherever possible the Group designates derivatives as either hedges of the fair value of recognised assets or liabilities (fair value hedges) or hedges of foreign currency and, or, interest rate risk of firm commitments and recognised liabilities (cash flow hedges). The Group may also from time to time employ hedges that do not satisfy the strict eligibility requirements for hedge accounting contained within IAS 39 and are, as a result, 'non designated' for hedge accounting purposes but which nevertheless make an effective hedge against a particular financial risk in accordance with the principles of risk management.

Derivative financial instruments are initially recorded at fair value at the time the derivative contract is entered into. After initial recognition they are re-measured to their fair value at each reporting date. The resulting gains or losses are taken to the income statement immediately unless the derivative is within a designated cash flow hedging relationship, in which event, the timing of the recognition in profit or loss depends on the nature of the underlying hedged item.

For derivatives where hedge accounting is not applied, the fair value movement is recorded in the income statement as fair value movement on derivative financial instruments. Interest accrued on derivatives that are not part of a hedging relationship is included in fair value gains and losses in the income statement.

#### (m) Hedge Accounting

At inception, each hedge relationship is designated as being either:

- A hedge of the fair value of a recognised asset or liability or firm commitment (fair value hedge); or,
- A hedge of a highly probable future cash flow attributable to either a recognised asset or liability or a forecast transaction (cash flow hedge).

A hedging relationship can only be recognised for the purposes of IAS 39 hedge accounting when all of the following are true:

- At the inception of the hedge, there is formal documentation of the hedge;
- The hedge is expected to be highly effective;
- The effectiveness of the hedge can be reliably measured;
- The hedge is highly effective throughout its life to maturity; and,
- For a hedge of a forecast transaction, the transaction is highly probable and presents an exposure to variations in cash flows that will ultimately affect net profit.

Derivative financial instruments included in hedging relationships are measured at fair value.

Hedge accounting is discontinued if the hedging relationship is no longer effective, as defined by IAS39, or no longer meets the hedging and business objectives. Note 13 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the cash flow hedge reserve in equity are detailed in the statement of changes in equity on page 17.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 2.3 Summary of Significant Accounting Policies (continued)

#### Fair Value Hedge

Changes in fair value of derivatives that are in designated fair value hedge relationships are recorded in the income statement immediately, together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk. Gains or losses on the revaluation of both the fair value hedge instrument and the hedged item are recognised in the income statement as they occur. Fair value adjustments relating to the hedging instrument are allocated to the same income statement category as the related hedged item.

Fair value hedge accounting is discontinued when the Group revokes the hedging relationship, the hedge instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The brought forward cumulative adjustment to the carrying amount of the hedged item arising from the hedged risk is, from the point of de-designation, then amortised through the income statement account over the remaining life of the hedged item.

#### Cash Flow Hedge

The change in the fair value of derivatives in cash flow hedge relationships is in each accounting period split between that part which is effective in hedging, that is offsetting, the change in value of the underlying item and that part which is deemed to be ineffective. That is, that part of the change in value of derivatives that does not offset the movement in the underlying hedged item.

That part of the change in value of a derivative that is deemed to be ineffective in its designated hedge relationship, is recognised immediately in the profit or loss account line 'fair value gain/loss on derivative financial instruments'. Gains or losses on derivatives that are deemed effective in hedging the underlying risk are deferred in the cash flow hedge reserve and released to profit or loss in the periods as and when the underlying hedged item is recognised in profit or loss.

Cash flow hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting. At the point of de-designation the cumulative gain or loss that had previously been deferred in the cash flow hedge reserve is charged to the income statement, unless the hedged item is a forecast transaction in which case the deferred gain or loss is transferred to the income statement as and when the forecast transaction occurs.

#### (n) Inventories

Inventories are valued at the lower of cost and net realisable value. Inventories represent assets that have come off a lease arrangement pending disposal or have been purchased for lease to customers. Net realisable value takes into account prevailing market values and cost of sale.

#### (o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

#### (p) Cash and Cash Equivalents

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

For purposes of the consolidated statement of cash flows, the Group has included bank overdrafts within cash and cash equivalents as they are considered an integral part of the Group's cash management.

#### (q) Securitisation Transactions

Where the Group has issued debt securities or entered into funding arrangements with lenders in order to finance specific loans and advances to customers all the financial assets concerned continue to be held on the Group statement of financial position, and a liability recognised for the proceeds from the funding transaction, unless one of the following applies:

- Substantially all of the risks and rewards associated with the financial assets have been transferred, in which case the assets are derecognised in full;
- The assets are also derecognised in their entirety where a significant portion but not all of the risks and rewards have been transferred and the transferee has the right to sell the financial assets;
- Where a significant portion but not substantially all of the risks and rewards have been transferred and the transferee does not have the ability to sell the assets then the assets are recognised in the Group's statement of financial position, but only to the extent of the Group's continuing involvement; and,
- Where any of the above applies to a fully proportionate share of all, or specifically identified cash flows of all the assets, then the relevant accounting treatment is applied to that proportion of the identified assets.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 2.3 Summary of Significant Accounting Policies (continued)

#### (r) Impairment of Non-Financial Assets

##### Operating Leased Property, Plant and Equipment

Residual value exposure occurs due to the uncertain nature of the value of an asset at the end of an agreement. Throughout the life of an asset, its residual value will fluctuate because of the uncertainty of the future market for that asset as well as general economic conditions. Residual values are set at the commencement of the lease based upon management's expectation of future sale proceeds. During the course of the lease, residual values are monitored so as to identify any impairment required. The monitoring takes account of the Group's past history for residual values and projections of the likely future market for each group of assets. Any impairment in the residual value of each group asset is immediately charged to the income statement.

##### Other Assets

The Group assesses at least annually whether there is an indication that a non-financial asset, e.g. goodwill, may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of value in use and fair value less costs of disposal and is determined for an individual asset or cash generating unit ("CGU"), unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group bases its impairment calculation on detailed budget calculations, which are prepared separately for each of the Group's CGU's. These budgets generally cover a period of five years; for longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year. Impairment losses are recognised in the income statement.

#### (s) Pension Benefits

The Group operates a defined benefit pension scheme and a defined contribution pension scheme. The pension cost relating to the defined benefit scheme is assessed in accordance with the advice of independent qualified actuaries using the projected unit credit method which attributes entitlements 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).

Actuarial gains and losses are recognised, in full, in the statement of comprehensive income in the periods in which they arise. The Group's contributions to the defined contribution scheme are charged to the income statement in the period to which the contributions relate.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of any asset is the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

#### (t) Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the requirements for revenue recognition.

#### (u) Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make lease payments when due in accordance with the terms of a lease agreement. The Group receives a fee for these services which is recognised over the contractual life of the agreement.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 2.4 Changes to Standards and Interpretations

The following new standards and amendments to existing standards were issued during the year.

#### Standards issued and came into effect during the year

##### **IFRS 14 Regulatory Deferral Accounts**

IFRS 14 defines regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other Standards, but that qualify to be deferred in accordance with IFRS 14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services. The scope of IFRS 14 is limited to first-time adopters that recognised regulatory deferral account balances in their financial statements in accordance with their previous GAAP. The standard permits such entities to continue to account for regulatory deferral account balances in their first and subsequent IFRS financial statements in accordance with their previous GAAP, but must present them separately. IFRS 14 is effective for entities whose first IFRS financial statements are for a period beginning on or after 1 January 2016. This standard did not have a material impact on the Group.

##### **IFRS 11 Joint Arrangements – Amendments**

The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The changes are effective from 1 January 2016 and are applied prospectively. These amendments did not have a material impact on the Group.

##### **IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – Amendments**

The amendments specify that a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods should be accounted for in the same way as property, plant and equipment in IAS 16 because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The amendments are effective for annual periods beginning on or after 1 January 2016 and must be applied retrospectively. These amendments did not have a material impact on the Group.

##### **IAS 27 Separate Financial Statements - Amendments**

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are effective from 1 January 2016 and must be applied retrospectively. It does not have a material impact on the Group.

##### **IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Amendments**

The amendments address the conflict between the requirements in IFRS 10 and IAS 28, when accounting for the sale or contribution of a subsidiary to a joint venture or associate (resulting in the loss of control of the subsidiary). This amendments are effective from 1 January 2016 and must be applied retrospectively. It is not expected to have a material impact on the Group.

##### **IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures – Amendments**

The amendments clarify which subsidiaries of an investment entity should be consolidated instead of being measured at fair value through profit or loss. It also confirms that the exemption from presenting consolidated financial statements continues to apply to subsidiaries of an investment entity that are themselves parent entities. In addition, the amendments provide relief whereby a non-investment entity investor can, when applying the equity method, choose to retain the fair value through profit or loss measurement that is applied by its investment entity associates and joint ventures to their subsidiaries. The changes are effective from 1 January 2016 and are applied retrospectively. These amendments did not have a material impact on the Group.

##### **IAS 1 Presentation of Financial Statements – Amendments**

The amendments address concerns expressed about some of the existing presentation and disclosure requirements of IAS 1 and ensure that entities are able to use judgement when applying those requirements. The amendments also clarify the requirements of paragraph 82A of IAS 1 for presenting an entity's share of items of other comprehensive income of associates and joint ventures accounted for using the equity method. The changes are effective from 1 January 2016 and are applied retrospectively. These amendments did not have a material impact on the Group.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 2.4 Changes to Standards and Interpretations (continued)

#### IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets – Amendments

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. These changes are effective from 1 January 2016 and must be applied prospectively. The Group's financial statements reflect the changes required under this standard.

#### IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendments clarify specific guidance on reclassification of an asset from held for sale to held-for-distribution or vice-versa and cases in which held-for-distribution accounting is discontinued. The changes are effective from 1 January 2016 and are applied prospectively. These amendments did not have a material impact on the Group.

#### IAS 34 Interim Financial Reporting

The amendments clarify the meaning of 'elsewhere in the interim report' and requires a cross-reference. The changes are effective from 1 January 2016 and are applied prospectively. These amendments did not have a material impact on the Group.

#### Standards issued and but not yet effective

#### IFRS 9 Financial Instruments

In July 2014, the IASB issues the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. As the impact of adoption depends on the assets held by the Group at the date of adoption, it is not practical to quantify the effect.

#### IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies the principles that an entity shall apply to report useful information to users of financial statements about the nature, timing, measurement, recognition and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is proposed to be mandatory from 1 January 2018. It is not expected to have a material impact on the Group.

#### IAS 12 Income taxes - Amendments

The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. These changes are effective from 1 January 2017 and must be applied retrospectively. It is not expected to have material impact on the Group.

#### IFRS 16 Leases – New standard

This standard was issued in January 2016 and it replaces the existing standard IAS 17 *Leases*. The standard requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 *Leases*. The new standard is effective from 1 January 2019 with early adoption permitted, provided the new revenue standard, IFRS 15 *Revenue from Contracts with Customers*, has been applied, or is applied at the same date as IFRS 16. As the impact of adoption depends on the assets held by the Group at the date of adoption, it is not practical to quantify the effect.

### 2.5 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods; key areas are discussed below. Management has not made any significant judgements, other than those involving estimates, in the preparation of the financial statements.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 2.5 Significant Accounting Judgements, Estimates and Assumptions (continued)

#### Fair Value Measurement

Some financial instruments, such as all derivatives and certain borrowings in fair value hedge relationships are measured and shown on the statement of financial position at their fair value determined at each statement of financial position date. Other financial instruments are measured at amortised cost on the statement of financial position and their fair values disclosed in Note 15.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based upon the presumption that the transaction to sell the asset or transfer the liability takes place in either:

- The principal market for the asset or liability;
- In the absence of a principal market, in the most advantageous market for the asset or liability; or,
- The principal or the most advantageous market being one that is accessible to the Group.

The fair value of an asset or a liability is measured, as near as practically possible, using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Any fair value measurements of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable market inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value and measurement is directly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value and measurement is unobservable

At the end of each reporting period the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### Impairment of Financial Assets

Discussed in note 2.3(i) above.

#### Impairment of Non-Financial Assets

Discussed in note 2.3(r) above.

#### Retirement Benefit Obligation

The cost of the defined benefit scheme and obligation is determined using actuarial valuations. This involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Further details are provided in note 22.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates.

#### Taxes

The Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provision required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned.



## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 2.5 Significant Accounting Judgements, Estimates and Assumptions (continued)

#### Provision for Customer Claims

The Group recognises a customer claims provision, where the Group is jointly and severally liable to customers who have claims against retailers for misrepresentation or breach of contract, in accordance with the accounting policy stated in 2.3(o). Further details are included in note 21.

### 3. Investment in Subsidiaries (Company)

	Note	2016 £m	2015 £m
At 1 April		12.5	8.8
Repayment of capital contribution from Hitachi Capital Insurance Europe Limited		(5.0)	-
Acquisition of Hitachi Capital Polska sp zoo (formerly Corpo Flota sp zoo)	30	-	3.7
<b>At 31 March</b>		<b>7.5</b>	<b>12.5</b>

	Place of incorporation and operation	Activity
Hitachi Capital Vehicle Solutions Limited	UK	Contract hire
Hitachi Capital Insurance Europe Limited	Ireland & UK	Insurance
Hitachi Capital Polska sp zoo (formerly Corpo Flota sp zoo)	Poland	Contract hire

All subsidiaries are wholly owned and directly held by the Company. Abridged versions of the subsidiary results can be found in note 4 of these financial statements.

### 4. Operating Segment Information

For management purposes, the Group is organised into a corporate centre and six business units based on their products and services. This split is the basis on which the Group reports its primary segment information and is in accordance with the measures reported to decision makers for the purpose of allocating resources to the segments and assessing their performance. Segment performance is evaluated based on profit before tax.

The principal activities of each business unit are as follows:

Consumer Finance (HCCF)	-	retail point of sale and personal finance
Vehicle Solutions (HCVS) & Hitachi Capital Polska sp zoo (HCPL), formerly Corpo Flota sp zoo (CFPL)	-	vehicle management solutions and fleet management services
Business Finance (HCBF)	-	medium term asset finance and Hitachi captive business
Invoice Finance (HCIF)	-	factoring
Insurance Europe (HCIE)	-	run off of a historic insurance portfolio
Corporate	-	head office, including hedging activities.

No revenues earned from transactions with a single external customer (including groups under common control) amount to 10% or more of the Group's revenues in either the 2016 or 2015 reporting periods. As the activities of the Group are predominantly carried out in the UK no geographical analysis is presented. Inter segment sales are charged at prevailing market rates.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 4. Operating Segment Information (continued)

Year ended 31 March 2016	HCVS and		HCBF	HCIF	HCIE	Corporate	Group
	HCCF	HCPL					
	£m	£m	£m	£m	£m	£m	£m
<b>Revenue</b>							
Interest income	86.9	-	-	11.9	-	-	98.8
Other external income	62.8	317.3	60.8	(0.8)	-	-	440.1
Inter segment	-	-	-	-	-	-	-
<b>Total revenue</b>	<b>149.7</b>	<b>317.3</b>	<b>60.8</b>	<b>11.1</b>	<b>-</b>	<b>-</b>	<b>538.9</b>
<b>Other allocations</b>							
Finance (costs)/income	(26.8)	(8.0)	(12.1)	(0.6)	-	-	(47.5)
Depreciation & impairment of operating lease assets	-	(128.7)	(9.5)	-	-	-	(138.2)
Bad debt impairment	(13.5)	-	(2.3)	(0.4)	-	-	(16.2)
Other	(53.3)	(159.8)	(19.4)	(8.4)	-	-	(240.9)
<b>Profit/(loss) before tax</b>	<b>56.1</b>	<b>20.8</b>	<b>17.5</b>	<b>1.7</b>	<b>-</b>	<b>-</b>	<b>96.1</b>
Income tax	(11.6)	(3.9)	(3.6)	(0.3)	-	-	(19.4)
<b>Profit/(loss) after tax</b>	<b>44.5</b>	<b>16.9</b>	<b>13.9</b>	<b>1.4</b>	<b>-</b>	<b>-</b>	<b>76.7</b>
<b>Assets</b>	<b>2,128.5</b>	<b>714.9</b>	<b>857.3</b>	<b>110.3</b>	<b>1.3</b>	<b>143.8</b>	<b>3,956.1</b>
<b>Liabilities</b>	<b>1,896.0</b>	<b>613.3</b>	<b>819.7</b>	<b>100.3</b>	<b>0.2</b>	<b>227.5</b>	<b>3,657.0</b>
<b>Other disclosures:</b>							
Capital expenditure	0.2	314.6	5.0	-	-	2.1	321.9
Equity and Reserves	-	101.6	-	-	1.1	196.4	299.1
<b>Year ended 31 March 2015</b>	<b>HCCF</b>	<b>HCVS</b>	<b>HCBF</b>	<b>HCIF</b>	<b>HCIE</b>	<b>Corporate</b>	<b>Group</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Revenue</b>							
Interest income	75.2	-	-	11.8	-	-	87.0
Other external income	59.4	331.9	51.3	(0.7)	-	0.2	442.1
Inter segment	-	1.5	-	-	-	(1.5)	-
<b>Total revenue</b>	<b>134.6</b>	<b>333.4</b>	<b>51.3</b>	<b>11.1</b>	<b>-</b>	<b>(1.3)</b>	<b>529.1</b>
<b>Other allocations</b>							
Finance (costs)/income	(23.9)	(7.0)	(10.4)	(0.7)	-	0.6	(41.4)
Depreciation & impairment of operating lease assets	-	(127.2)	(9.2)	-	-	-	(136.4)
Bad debt impairment	(11.2)	-	(1.7)	(1.9)	-	-	(14.8)
Other	(46.6)	(177.3)	(14.5)	(6.2)	0.6	(8.4)	(252.4)
<b>Profit/(loss) before tax</b>	<b>52.9</b>	<b>21.9</b>	<b>15.5</b>	<b>2.3</b>	<b>0.6</b>	<b>(9.1)</b>	<b>84.1</b>
Income tax	(11.3)	(4.5)	(3.3)	(0.5)	(0.1)	2.0	(17.7)
<b>Profit/(loss) after tax</b>	<b>41.6</b>	<b>17.4</b>	<b>12.2</b>	<b>1.8</b>	<b>0.5</b>	<b>(7.1)</b>	<b>66.4</b>
<b>Assets</b>	<b>1,861.9</b>	<b>602.5</b>	<b>747.3</b>	<b>120.4</b>	<b>6.9</b>	<b>83.8</b>	<b>3,422.8</b>
<b>Liabilities</b>	<b>1,679.6</b>	<b>514.7</b>	<b>726.1</b>	<b>112.0</b>	<b>0.4</b>	<b>155.1</b>	<b>3,187.9</b>
<b>Other disclosures:</b>							
Capital expenditure	1.0	283.6	7.2	-	-	3.7	295.5
Equity and Reserves	-	87.8	-	-	6.5	140.6	234.9

For year ended 31 March 2016, all shared costs have been allocated to operating segments. In 2015, these were reported within corporate segment.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 5. Revenue

	2016 £m	2015 £m
Interest income	98.1	86.3
Finance lease income	48.4	38.9
Operating lease rental income	218.6	212.4
Sale of operating leased assets	91.0	117.7
Fee income related to the activities above	82.8	73.8
<b>Total revenue</b>	<b>538.9</b>	<b>529.1</b>

### 6. Other Cost of Sales

	Note	2016 £m	2015 £m
Commission expense		1.4	0.4
Net insurance claims incurred	28	-	(0.5)
Customer claim charges and provisions	21	7.1	7.9
Operating lease assets net book value		92.2	116.6
Other expenses		0.9	1.4
<b>Total other cost of sales</b>		<b>101.6</b>	<b>125.8</b>

### 7. Administrative Expenses and Auditor's Remuneration

	2016 £m	2015 £m
Staff	64.8	56.1
Premises and office	8.1	8.6
IT and telephony	12.9	13.3
Marketing	10.0	9.5
Professional services and other	14.6	10.3
Auditor's remuneration		
Audit of financial statements	0.7	0.6
Other assurance services	0.3	-
<b>Total administration expenses</b>	<b>111.4</b>	<b>98.4</b>

The number of full time equivalent employees at 31 March 2016 was 1,138 (2015: 1,051), which included permanent and temporary staff as well as those on fixed term contracts. Of this, HCUK Company had 734 (2015: 643), Vehicle solutions had 363 (2015: 372) and Hitachi Capital Polska sp zoo (formerly Corpo Flota sp zoo) had 41 (2015: 36). The Group employed an average of 1,094 (2015: 999) employees during the year. Of this, HCUK Company had 688 (2015: 602), the subsidiary Vehicle Solutions had 368 (2015: 364) and Hitachi Capital Polska sp zoo (formerly Corpo Flota sp zoo) had 37 (2015: 33).

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 8. Income Tax

	2016 £m	2015 £m
Current income tax		
Charge for the year	22.5	24.3
Adjustment in respect of prior years	(0.1)	0.6
<b>Total</b>	<b>22.4</b>	<b>24.9</b>
Deferred tax		
Origination and reversal of temporary differences in the current year	(3.0)	(6.5)
Adjustment in respect of prior years	-	(0.7)
<b>Total</b>	<b>(3.0)</b>	<b>(7.2)</b>
<b>Tax charge on profit</b>	<b>19.4</b>	<b>17.7</b>

Adjustments in respect of prior years are required due to the nature of the Group's business, i.e. having a large number of assets qualifying for capital allowances. It is necessary, due to time constraints, to estimate the allowances available at the time the financial statements are prepared. This is largely due to the availability of 18% and 8% capital allowances on cars dependent upon CO<sub>2</sub> emissions and short life asset elections for others. When the tax computations are prepared this can result in a swing between deferred and current tax. This would normally net out but at times of falling corporation tax rates this creates an adjustment. In 2016, there were net prior year adjustments of £0.1m.

In addition to the amount reported in the income statement, deferred tax relating to the following items has been charged/ (credited) directly in the Group's equity:

	Note	2016 £m	2015 £m
Revaluation of defined benefit pension scheme		0.2	(0.8)
Revaluation of cash flow hedges		0.3	(2.8)
<b>Total tax (credited)/charged on items taken directly to equity</b>	<b>9</b>	<b>0.5</b>	<b>(3.6)</b>

The Group's income tax charge in the income statement can be reconciled to the profit as follows:

	2016 £m	2015 £m
<b>Profit before tax</b>	<b>96.1</b>	<b>84.1</b>
Tax on profit at UK corporation tax rate of 20% (2015: 21%)	19.2	17.7
Increase/(decrease) resulting from:		
Adjustments in respect of prior years	(0.1)	-
Disallowable expenses and other adjustments	0.4	0.2
Release of provision for uncertain tax positions		-
Impact of rate change on net deferred tax liabilities	(0.1)	(0.2)
<b>Tax charge</b>	<b>19.4</b>	<b>17.7</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 8. Income Tax (continued)

The UK rate of corporation tax reduced from 21% to 20% from 1 April 2015. Future rates which have also been enacted are: reduction to 19% from 1 April 2017 and a further 1% reduction to 18% from 1 April 2020. The Chancellor has announced at the 2016 budget a further reduction to 17% from 1 April 2020 but that is not yet enacted. Deferred tax has therefore been provided at 20% at 31 March 2016. Looking at individual categories of deferred tax it was considered as 31 March 2016 that the deferred tax should be recalculated at a composite rate of approximately 19% across the Group. This created a reduction in tax charged in 2016 through the income statement of £0.3m. There was £0.1m increase in 2015 in respect of derivative financial instrument which was charged to equity. There were no movements in the current year charged to equity.

### 9. Deferred Tax

Deferred taxes are calculated on all temporary differences under the liability method. There are no temporary differences in respect of which deferred tax has not been recognised.

The deferred tax assets and liabilities have been offset for reporting purposes on the basis that deferred tax predominantly arises in respect of items taxable within the same jurisdiction (UK) and it is expected that a right of set-off will exist when the items reverse.

	Accelerated tax depreciation	Retirement benefit obligations	Derivative financial instruments	Other	Total
	£m	£m	£m	£m	£m
<b>Group</b>					
At 31 March 2014	(12.8)	(0.5)	0.5	0.1	(12.7)
Charge to income statement	7.0	(0.2)	-	0.4	7.2
Charge to equity	-	0.8	2.8	-	3.6
At 31 March 2015	(5.8)	0.1	3.3	0.5	(1.9)
Charge to income statement	3.0	-	-	-	3.0
Charge to equity	-	(0.2)	(0.3)	-	(0.5)
<b>At 31 March 2016</b>	<b>(2.8)</b>	<b>(0.1)</b>	<b>3.0</b>	<b>0.5</b>	<b>0.6</b>
<b>Company</b>					
At 31 March 2014	0.1	(0.5)	0.5	-	0.1
Charge to income statement	0.5	(0.2)	-	0.4	0.7
Charge to equity	-	0.8	2.8	-	3.6
At 31 March 2015	0.6	0.1	3.3	0.4	4.4
Charge to income statement	1.2	-	-	-	1.2
Charge to equity	-	(0.2)	(0.3)	-	(0.5)
<b>At 31 March 2016</b>	<b>1.8</b>	<b>(0.1)</b>	<b>3.0</b>	<b>0.4</b>	<b>5.1</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 10. Property, Plant and Equipment

	Freehold property	Motor vehicles	Fixtures, fittings, computers and leasehold improvements	Operating leased assets	Total
	£m	£m	£m	£m	£m
<b>Group</b>					
<b>Cost</b>					
At 31 March 2014	6.2	-	10.2	772.9	789.3
Additions	0.5	1.4	3.4	281.7	287.0
Acquisition of a subsidiary		1.3	-	5.7	7.0
Disposals	(0.2)	(1.5)	(0.6)	(209.8)	(212.1)
Stock movements	(0.3)	-	0.3	0.7	0.7
At 31 March 2015	6.2	1.2	13.3	851.2	871.9
Additions	-	1.2	1.8	318.3	321.3
Disposals	-	(0.5)	(0.2)	(181.5)	(182.2)
Stock movements	-	-	-	0.3	0.3
<b>At 31 March 2016</b>	<b>6.2</b>	<b>1.9</b>	<b>14.9</b>	<b>988.3</b>	<b>1,011.3</b>
<b>Accumulated depreciation and impairment</b>					
At 31 March 2014	0.2	-	4.5	259.9	264.6
Charge for the year	0.1	0.8	2.6	149.0	152.5
Impairment loss	-	-	-	(12.3)	(12.3)
Eliminated on disposals	-	(0.5)	(0.6)	(102.5)	(103.6)
Stock movements	-	-	-	1.1	1.1
At 31 March 2015	0.3	0.3	6.5	295.2	302.3
Charge for the year	0.1	0.4	2.7	139.0	142.2
Impairment loss	-	-	-	(1.0)	(1.0)
Disposals	-	(0.2)	(0.2)	(100.0)	(100.4)
Stock movements	-	-	-	-	-
<b>At 31 March 2016</b>	<b>0.4</b>	<b>0.5</b>	<b>9.0</b>	<b>333.2</b>	<b>343.1</b>
<b>Carrying amount</b>					
At 31 March 2015	5.9	0.9	6.8	556.0	569.6
<b>At 31 March 2016</b>	<b>5.8</b>	<b>1.4</b>	<b>5.9</b>	<b>655.1</b>	<b>668.2</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 10. Property, Plant and Equipment (continued)

At 31 March 2016, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £92.0m (2015: £65.0m), being assets to be leased to customers under operating leases. Management has determined that the necessary funding will be available from existing facilities to cover these commitments. The Company had no such commitments.

Depreciation expense for the Group of £139.0m (2015: £149.0m) relating to operating leased assets was included in cost of sales. A further impairment release of £1.0m (2015: release of £12.3m) relating to operating leased assets was also included in cost of sales. The impairment release recognised in operating leased assets in the financial year ended 31 March 2016 is mainly as a result of improvements in the quality of residual value estimates at contract inception. Depreciation expense relating to the remainder of the Group's property, plant and equipment of £3.2m (2015: £3.5m) was included in administrative expenses.

The company tests annually for any impairment on operating leased asset residual values. Any impairment loss/gain is calculated by reference to the value in use of the operating leased assets. The key assumptions used in determining the value in use are the discount rate, disposal performance over market guides and costs of disposal. The weighted average discount rate used was 6.93% (2015: 7.25%).

	Fixtures, fittings, computers and leasehold improvements £m	Operating leased assets £m	Total £m
<b>Company</b>			
<b>Cost</b>			
At 31 March 2014	7.3	59.3	66.6
Additions	3.4	7.2	10.6
Disposals	(0.3)	(4.8)	(5.1)
Stock movements	-	0.7	0.7
At 31 March 2015	10.4	62.4	72.8
Additions	1.7	5.0	6.7
Disposals	-	(7.0)	(7.0)
Stock movements	-	-	-
<b>At 31 March 2016</b>	<b>12.1</b>	<b>60.4</b>	<b>72.5</b>
<b>Accumulated depreciation and impairment</b>			
At 31 March 2014	3.1	17.5	20.6
Charge for the year	1.7	11.0	12.7
Impairment loss	-	(1.8)	(1.8)
Eliminated on disposals	(0.2)	(3.3)	(3.5)
Stock movements	-	0.5	0.5
At 31 March 2015	4.6	23.9	28.5
Charge for the year	2.2	9.5	11.7
Impairment loss	-	-	-
Eliminated on disposals	-	(6.2)	(6.2)
Stock movements	-	-	-
<b>At 31 March 2016</b>	<b>6.8</b>	<b>27.2</b>	<b>34.0</b>
<b>Carrying amount</b>			
At 31 March 2015	5.8	38.5	44.3
<b>At 31 March 2016</b>	<b>5.3</b>	<b>33.2</b>	<b>38.5</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 11. Intangible assets

	Capitalised software £m	Intangibles £m	Goodwill £m	Total £m
<b>Group</b>				
<b>Cost</b>				
At 31 March 2014	12.5	-	13.7	26.2
Additions	1.5	1.0	0.2	2.7
Disposals	(0.2)	-	-	(0.2)
At 31 March 2015	13.8	1.0	13.9	28.7
Additions	0.7	-	-	0.7
Disposals	(0.3)	-	-	(0.3)
<b>At 31 March 2016</b>	<b>14.2</b>	<b>1.0</b>	<b>13.9</b>	<b>29.1</b>
<b>Accumulated amortisation and impairment</b>				
At 31 March 2014	9.2	-	-	9.2
Charge for the year	1.6	0.7	-	2.3
Disposals	(0.2)	-	-	(0.2)
At 31 March 2015	10.6	0.7	-	11.3
Charge for the year	1.4	0.3	-	1.7
Disposals	-	-	-	-
<b>At 31 March 2016</b>	<b>12.0</b>	<b>1.0</b>	<b>-</b>	<b>13.0</b>
<b>Carrying amount</b>				
At 31 March 2015	3.2	0.3	13.9	17.4
<b>At 31 March 2016</b>	<b>2.2</b>	<b>-</b>	<b>13.9</b>	<b>16.1</b>
<b>Company</b>				
<b>Cost</b>				
At 31 March 2014	8.4	-	4.9	13.3
Additions	1.5	-	-	1.5
Disposals	(0.2)	-	-	(0.2)
At 31 March 2015	9.7	-	4.9	14.6
Additions	0.6	-	-	0.6
Disposals	(0.2)	-	-	(0.2)
<b>At 31 March 2016</b>	<b>10.1</b>	<b>-</b>	<b>4.9</b>	<b>15.0</b>
<b>Accumulated amortisation and impairment</b>				
At 31 March 2014	5.3	-	-	5.3
Charge for the year	1.4	-	-	1.4
Disposals	(0.1)	-	-	(0.1)
At 31 March 2015	6.6	-	-	6.6
Charge for the year	1.4	-	-	1.4
Disposals	-	-	-	-
<b>At 31 March 2016</b>	<b>8.0</b>	<b>-</b>	<b>-</b>	<b>8.0</b>
<b>Carrying amount</b>				
At 31 March 2015	3.1	-	4.9	8.0
<b>At 31 March 2016</b>	<b>2.1</b>	<b>-</b>	<b>4.9</b>	<b>7.0</b>
<b>Carrying amount of goodwill by business segment</b>				
	Invoice Finance £m	Vehicle Solutions £m	Corpo Flota £m	Total £m
At 31 March 2015	4.9	8.8	0.2	13.9
<b>At 31 March 2016</b>	<b>4.9</b>	<b>8.8</b>	<b>0.2</b>	<b>13.9</b>



## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 11. Intangible assets (continued)

The amortisation charge relating to capitalised software and other intangibles is included in the administrative expense line of the income statement.

At 31 March 2016, neither the Group nor the Company had any contractual commitments for the acquisition of intangible assets (2015: none).

#### Impairment Testing

The recoverable amount for each cash generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a four year period. The pre-tax discount rates applied to cash flow projections and cash flows beyond the four year period were extrapolated using a 2.7% growth rate (2015: 2.7%).

The key assumptions used in the calculation of value in use were budget assumptions to which an estimate of growth rate was used to extrapolate cash flows beyond the budget period and a discount rate was then applied. The budgets for each cash generating unit are representative of operational and financial aspects that relate to that unit and include past experience, default rates, impairment implications and market conditions prevailing at the time. As a result, management have used their current asset base and new sales opportunities to derive the revenue and profitability expectations for the operating unit. These budgets are approved by senior management and the parent company. The growth rate used to extrapolate cash flows beyond the budget period has been based on the long term growth rate of the economy. An internal rate of return method was used in the calculation of value in use, which resulted in returns in excess of the parent company's minimum expectations.

Management has determined that any reasonably possible change in the key assumptions would not cause the carrying amount of the cash generating unit to materially exceed its recoverable amount.

### 12. Loans and Receivables

Movements in the allowance for impairment losses	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
At 1 April	13.0	5.4	13.0	5.4
Amounts written off	(16.7)	(10.0)	(16.7)	(9.8)
Recoveries	3.8	2.8	3.8	2.6
Charge to the income statement	16.2	14.8	16.2	14.8
<b>Total at 31 March</b>	<b>16.3</b>	<b>13.0</b>	<b>16.3</b>	<b>13.0</b>
Loans and receivables, gross of impairment	3,111.0	2,734.1	3,558.1	3,126.3
Loans and receivables, net of impairment	3,094.8	2,721.0	3,541.8	3,113.3

The total bad debt impairment charge in the consolidated income statement is £16.2m (2015: £14.8m).

Loans and receivables, net of impairment, together with weighted average effective interest rates, are analysed further below.

	Group 2016 £'000	%	Group 2015 £'000	%	Company 2016 £'000	%	Company 2015 £'000	%
Finance leases	840.4	5.8	720.4	6.0	820.5	5.8	709.2	5.9
Instalment finance agreements	2,124.4	8.2	1,853.4	9.0	2,124.4	8.2	1,853.5	9.0
Other	130.0	-	147.2	3.9	130.0	-	147.1	3.9
Amounts owed by subsidiaries	-	-	-	0.0	466.9	1.8	403.5	1.8
<b>Total</b>	<b>3,094.8</b>	<b>7.2</b>	<b>2,721.0</b>	<b>7.9</b>	<b>3,541.8</b>	<b>6.5</b>	<b>3,113.3</b>	<b>7.1</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 12. Loans and Receivables (continued)

The amortised present values of the loans and receivables, analysed by residual maturity:

Group	<1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
<b>Finance lease receivables at 31 March 2016</b>					
Finance leases – gross	43.1	63.2	23.0	1.1	130.4
Deferred Revenue	(4.2)	(5.6)	(1.9)	(0.1)	(11.8)
Impairment	(0.3)	(0.5)	(0.1)	-	(0.9)
<b>Total</b>	<b>38.6</b>	<b>57.1</b>	<b>21.0</b>	<b>1.0</b>	<b>117.7</b>
<b>Finance lease receivables at 31 March 2015</b>					
Finance leases – gross	33.4	56.5	21.6	0.8	112.3
Deferred Revenue	(3.6)	(5.6)	(2.0)	(0.1)	(11.3)
Impairment	(0.2)	(0.2)	(0.1)	-	(0.5)
<b>Total</b>	<b>29.6</b>	<b>50.7</b>	<b>19.5</b>	<b>0.7</b>	<b>100.5</b>
<b>HP agreements at 31 March 2016</b>					
HP agreements – gross	291.9	381.8	115.3	5.2	794.2
Deferred Revenue	(24.8)	(32.2)	(9.7)	(0.4)	(67.1)
Impairment	(1.7)	(2.1)	(0.6)	-	(4.4)
<b>Total</b>	<b>265.4</b>	<b>347.5</b>	<b>105.0</b>	<b>4.8</b>	<b>722.7</b>
<b>HP agreements at 31 March 2015</b>					
HP agreements – gross	245.3	326.5	105.3	4.0	681.1
Deferred Revenue	(21.1)	(28.0)	(9.1)	(0.3)	(58.5)
Impairment	(1.0)	(1.3)	(0.4)	-	(2.7)
<b>Total</b>	<b>223.2</b>	<b>297.2</b>	<b>95.8</b>	<b>3.7</b>	<b>619.9</b>
<b>Instalment Finance at 31 March 2016</b>					
Instalment Finance – gross	972.7	1,087.7	329.9	106.1	2,496.4
Deferred Revenue	(154.7)	(142.8)	(42.1)	(22.1)	(361.7)
Impairment	(4.0)	(4.5)	(1.4)	(0.4)	(10.3)
<b>Total</b>	<b>814.0</b>	<b>940.4</b>	<b>286.4</b>	<b>83.6</b>	<b>2,124.4</b>
<b>Instalment Finance at 31 March 2015</b>					
Instalment Finance – gross	818.0	986.0	311.1	116.0	2,231.1
Deferred Revenue	(155.7)	(144.4)	(45.0)	(24.7)	(369.8)
Impairment	(2.8)	(3.6)	(1.1)	(0.4)	(7.9)
<b>Total</b>	<b>659.5</b>	<b>838.0</b>	<b>265.0</b>	<b>90.9</b>	<b>1,853.4</b>
<b>Other Loans and Advances 31 March 2016</b>					
Other Loans – gross	130.6	-	-	-	130.6
Deferred Revenue	0.1	-	-	-	0.1
Impairment	(0.7)	-	-	-	(0.7)
<b>Total</b>	<b>130.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>130.0</b>
<b>Other Loans and Advances at 31 March 2015</b>					
Other Loans – gross	149.0	-	-	-	149.0
Deferred Revenue	0.1	-	-	-	0.1
Impairment	(1.9)	-	-	-	(1.9)
<b>Total</b>	<b>147.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>147.2</b>
<b>Total at 31 March 2016 (Loans and receivables, net of impairment)</b>	<b>1,248.0</b>	<b>1,345.0</b>	<b>412.4</b>	<b>89.4</b>	<b>3,094.8</b>
<b>Total at 31 March 2015 (Loans and receivables, net of impairment)</b>	<b>1,059.5</b>	<b>1,185.9</b>	<b>380.3</b>	<b>95.3</b>	<b>2,721.0</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 12. Loans and Receivables (continued)

Company	<1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
<b>Finance lease receivables at 31 March 2016</b>					
Finance leases – gross	36.2	53.2	18.7	1.1	109.2
Deferred Revenue	(3.5)	(5.0)	(1.8)	(0.1)	(10.4)
Impairment	(0.3)	(0.5)	(0.2)	-	(1.0)
<b>Total</b>	<b>32.4</b>	<b>47.7</b>	<b>16.7</b>	<b>1.0</b>	<b>97.8</b>
<b>Finance lease receivables at 31 March 2015</b>					
Finance leases – gross	30.1	49.4	19.6	0.8	99.9
Deferred Revenue	(3.0)	(5.0)	(2.0)	(0.1)	(10.1)
Impairment	(0.1)	(0.2)	(0.1)	-	(0.4)
<b>Total</b>	<b>27.0</b>	<b>44.2</b>	<b>17.5</b>	<b>0.7</b>	<b>89.4</b>
<b>HP agreements at 31 March 2016</b>					
HP agreements – gross	291.9	381.6	115.3	5.2	794.0
Deferred Revenue	(24.7)	(32.2)	(9.7)	(0.4)	(67.0)
Impairment	(1.6)	(2.1)	(0.6)	-	(4.3)
<b>Total</b>	<b>265.6</b>	<b>347.3</b>	<b>105.0</b>	<b>4.8</b>	<b>722.7</b>
<b>HP agreements at 31 March 2015</b>					
HP agreements – gross	245.2	326.5	105.3	4.0	681.0
Deferred Revenue	(21.1)	(28.0)	(9.1)	(0.3)	(58.5)
Impairment	(1.0)	(1.3)	(0.4)	-	(2.7)
<b>Total</b>	<b>223.1</b>	<b>297.2</b>	<b>95.8</b>	<b>3.7</b>	<b>619.8</b>
<b>Instalment Finance at 31 March 2016</b>					
Instalment Finance – gross	972.5	1,087.9	329.9	106.1	2,496.4
Deferred Revenue	(154.7)	(142.8)	(42.1)	(22.1)	(361.7)
Impairment	(4.0)	(4.5)	(1.4)	(0.4)	(10.3)
<b>Total</b>	<b>813.8</b>	<b>940.6</b>	<b>286.4</b>	<b>83.6</b>	<b>2,124.4</b>
<b>Instalment Finance at 31 March 2015</b>					
Instalment finance – gross	818.1	986.0	311.1	116.0	2,231.2
Deferred Revenue	(155.7)	(144.4)	(45.0)	(24.7)	(369.8)
Impairment	(2.8)	(3.6)	(1.1)	(0.4)	(7.9)
<b>Total</b>	<b>659.6</b>	<b>838.0</b>	<b>265.0</b>	<b>90.9</b>	<b>1,853.5</b>
<b>Other Loans and Advances 31 March 2016</b>					
Other Loans – gross	130.7	-	-	-	130.7
Deferred Revenue	-	-	-	-	-
Impairment	(0.7)	-	-	-	(0.7)
Loan Receivable from subsidiaries	-	-	-	466.9	466.9
<b>Total</b>	<b>130.0</b>	<b>-</b>	<b>-</b>	<b>466.9</b>	<b>596.9</b>
<b>Other Loans and Advances at 31 March 2015</b>					
Other Loans – gross	149.0	-	-	-	149.0
Deferred Revenue	-	-	-	-	-
Impairment	(1.9)	-	-	-	(1.9)
Loan Receivable from subsidiaries	-	-	-	403.5	403.5
<b>Total</b>	<b>147.1</b>	<b>-</b>	<b>-</b>	<b>403.5</b>	<b>550.6</b>
<b>Total at 31 March 2016 (Loans and receivables, net of impairment)</b>	<b>1,241.8</b>	<b>1,335.6</b>	<b>408.1</b>	<b>556.3</b>	<b>3,541.8</b>
<b>Total at 31 March 2015 (Loans and receivables, net of impairment)</b>	<b>1,056.8</b>	<b>1,179.4</b>	<b>378.3</b>	<b>498.8</b>	<b>3,113.3</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 12. Loans and Receivables (continued)

In the above in Other Loans and Advances, the Company has a loan receivable of £466.9m (2015: £403.5m) from the subsidiaries in the Group. There is no deferral of revenue applied and the amount is due in over 5 years.

The unguaranteed residual value of assets leased under finance leases by the Group at the reporting date is £5.4m (2015: £3.9m). There are none for the Company in either of the years stated.

Refer to note 29.7 for disclosures regarding transfer of financial assets, including securitisations.

The interest rate in the majority of loans and receivables is fixed at the contract date for all of the lending term. These balances are therefore subject to fair value interest rate risk. Approximately £54.9m (2015: £51.5m) of loans and receivables are written at floating interest rates, and are therefore subject to cash flow interest rate risk.

### 13. Derivative Financial Instruments

Derivative financial instruments have been disclosed in the Group and Company statement of financial position as follows:

2016	Yen £m	Cross currency swap contracts						Interest rate swap		
		USD £m	NZD £m	CAD £m	EUR £m	HKD £m	SGD £m	Total £m	Total £m	Total £m
<b>Assets</b>										
Less than 1 year	31.2	10.1	-	-	9.3	-	-	50.6	-	50.6
1 to 2 years	4.1	25.4	1.0	-	-	6.2	0.7	37.4	-	37.4
2 to 5 years	2.3	8.7	-	0.3	-	3.9	-	15.2	-	15.2
Over 5 years	-	0.4	-	-	-	-	-	0.4	-	0.4
<b>Total</b>	<b>37.6</b>	<b>44.6</b>	<b>1.0</b>	<b>0.3</b>	<b>9.3</b>	<b>10.1</b>	<b>0.7</b>	<b>103.6</b>	<b>-</b>	<b>103.6</b>
<b>Liabilities</b>										
Less than 1 year	(15.7)	-	(0.5)	(0.1)	(0.1)	-	-	(16.4)	(0.7)	(17.1)
1 to 2 years	(19.2)	-	-	-	-	-	-	(19.2)	(2.8)	(22.0)
2 to 5 years	(0.3)	-	-	-	(1.0)	-	-	(1.3)	(6.9)	(8.2)
Over 5 years	-	-	-	-	-	-	-	-	(0.2)	(0.2)
<b>Total</b>	<b>(35.2)</b>	<b>-</b>	<b>(0.5)</b>	<b>(0.1)</b>	<b>(1.1)</b>	<b>-</b>	<b>-</b>	<b>(36.9)</b>	<b>(10.6)</b>	<b>(47.5)</b>
<b>TOTAL</b>	<b>2.4</b>	<b>44.6</b>	<b>0.5</b>	<b>0.2</b>	<b>8.2</b>	<b>10.1</b>	<b>0.7</b>	<b>66.7</b>	<b>(10.6)</b>	<b>56.1</b>
Of which,										
Designated as fair value hedges								3.0	-	3.0
Designated as cash flow hedges								63.7	(10.6)	53.1

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 13. Derivative Financial Instruments (continued)

2015	Cross currency swap contracts							Interest rate swap		Total
	Yen	USD	NZD	CAD	EUR	HKD	SGD	Total	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>										
Less than 1 year	-	8.3	-	-	-	-	-	8.3	-	8.3
1 to 2 years	1.0	5.2	-	-	-	-	-	6.2	-	6.2
2 to 5 years	-	21.9	-	-	-	4.1	-	26.0	-	26.0
Over 5 years	-	0.9	-	-	-	-	-	0.9	-	0.9
Total	1.0	36.3	-	-	-	4.1	-	41.4	-	41.4
<b>Liabilities</b>										
Less than 1 year	(31.0)	(0.1)	(0.2)	(0.1)	(37.7)	-	-	(69.1)	(0.2)	(69.3)
1 to 2 years	(39.5)	-	(0.1)	(0.1)	-	-	-	(39.7)	(1.4)	(41.1)
2 to 5 years	(34.1)	-	-	-	(3.0)	-	-	(37.1)	(5.5)	(42.6)
Over 5 years	-	-	-	-	-	-	-	-	(1.2)	(1.2)
Total	(104.6)	(0.1)	(0.3)	(0.2)	(40.7)	-	-	(145.9)	(8.3)	(154.2)
<b>TOTAL</b>	<b>(103.6)</b>	<b>36.2</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>(40.7)</b>	<b>4.1</b>	<b>-</b>	<b>(104.5)</b>	<b>(8.3)</b>	<b>(112.8)</b>
Of which,										
Designated as fair value hedges								(20.5)	-	(20.5)
Designated as cash flow hedges								(84.0)	(8.3)	(92.3)

The hedged cash flows are expected to occur and affect Other Comprehensive Income in the periods up to September 2021 (2015: September 2021) for cross currency swaps and to September 2021 (2015: September 2021) for interest rate swaps. The description of the hedges are covered in significant accounting policies notes 2.3(k) and 2.3(l).

A description of the risks being hedged for fair value and cash flow hedges is disclosed in note 29.3.

Fair value gain/(loss) on derivative financial instruments:	2016 £m	2015 £m
Ineffective portion of cash flow hedges	-	-
Gain/(loss) on fair value hedging instruments	23.5	7.6
Gain/(loss) on the hedged item attributable to the hedged risk in FV hedges	(23.2)	(7.2)
Gain/(loss) on derivatives not in designated hedging relationships	-	-
<b>Total gain/(loss) recognised in the income statement</b>	<b>0.3</b>	<b>0.4</b>

### 14. Interest Bearing Borrowings

The Group provides a central treasury function that is responsible for all external funding activities. The carrying values and weighted average effective interest rates of borrowings are as follows:

	Group		Company		Group and Company	
	2016 £m	2016 %	2016 £m	2016 %	2015 £m	2015 %
Bank and group borrowings	1,392.0	1.31	1,363.2	1.31	714.2	1.40
Commercial paper	226.2	0.85	226.2	0.85	217.6	0.75
Funding from securitised receivables	291.3	1.06	291.3	1.06	236.0	1.70
Medium term notes	1,433.0	1.42	1,433.0	1.42	1,606.0	1.41
<b>Total</b>	<b>3,342.5</b>	<b>1.32</b>	<b>3,313.7</b>	<b>1.32</b>	<b>2,773.7</b>	<b>1.41</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 14. Interest Bearing Borrowings (continued)

Bank overdrafts are repayable on demand and secured by the right of set-off against cash balances held by certain Group companies with the same bank (refer note 18). The average effective rate on overdraft balances for the year was 1.5% (2015: 1.5%) and is based on UK base rates plus an agreed margin. Other uncommitted borrowing facilities are available to the Group from banks and other sources. Certain facilities are secured by the right of set-off against cash balances held by certain Group companies at the same bank (refer note 18).

The Group raises funding under its Euro Medium Term Note ("EMTN") programme mainly for terms of one to five years. Borrowings from this source are unsecured although they benefit from a guarantee from Hitachi Capital Corporation.

Borrowings under the Group's two commercial paper programmes are typically raised for periods of between one month and 364 days. Borrowings under these programmes are also guaranteed by Hitachi Capital Corporation.

Proceeds from the securitisation of certain receivables are at a floating rate of interest, typically fixing for a period of between one and three months at each monthly interest payment date.

The Group utilises two securitisation facilities: under the first it sells consumer receivables to The Royal Bank of Scotland plc, acting as trustee ('Consumer Securitisation'). Under the second, receivables from Small to Medium Enterprises are sold to Fleetbank Funding Limited as part of the British Business Bank's 'Enable Funding' programme ('SME Securitisation') (see note 12). These assets are not derecognised from the financial statements since the majority of the risks and rewards are retained by the Group. In both arrangements if the facilities were, for whatever reason, to be run down, then the Group is entitled to receive the return of surplus cash collections after fees, and principal and interest of the secured borrowings are repaid.

The borrowings are repayable as follows:

Group	Fixed 2016 £m	Floating 2016 £m	Total 2016 £m	Fixed 2015 £m	Floating 2015 £m	Total 2015 £m
<b>Current liabilities</b>						
On demand or within 1 year	978.2	426.0	1,404.2	365.0	727.1	1,092.1
<b>Non current liabilities</b>						
More than 1 year but less than 2	270.0	484.4	754.4	590.4	244.1	834.5
More than 2 years but less than 7	412.0	771.9	1,183.9	328.6	518.6	847.2
<b>Total</b>	<b>682.0</b>	<b>1,256.3</b>	<b>1,938.3</b>	<b>918.9</b>	<b>762.7</b>	<b>1,681.6</b>
<b>Total</b>	<b>1,660.2</b>	<b>1,682.3</b>	<b>3,342.5</b>	<b>1,283.9</b>	<b>1,489.8</b>	<b>2,773.7</b>

There were no defaults of either principal or interest and no unremedied breaches of loan agreement terms that would permit the lender to demand accelerated payment on any loans payable during the reporting periods ending March 2016 or 2015.

Company	Fixed 2016 £m	Floating 2016 £m	Total 2016 £m	Fixed 2015 £m	Floating 2015 £m	Total 2015 £m
<b>Current liabilities</b>						
On demand or within 1 year	963.9	426.0	1,389.9	362.8	715.3	1,078.1
<b>Non current liabilities</b>						
More than 1 year but less than 2	255.5	484.4	739.9	590.2	244.0	834.2
More than 2 years but less than 7	412.0	771.9	1,183.9	328.6	518.6	847.2
<b>Total</b>	<b>667.5</b>	<b>1,256.3</b>	<b>1,923.8</b>	<b>918.8</b>	<b>762.6</b>	<b>1,681.4</b>
<b>Total</b>	<b>1,631.4</b>	<b>1,682.3</b>	<b>3,313.7</b>	<b>1,281.6</b>	<b>1,477.9</b>	<b>2,759.5</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 14. Interest Bearing Borrowings (continued)

An analysis of borrowings by currency is as follows:

Group	Sterling £m	Euro £m	Yen £m	US Dollar £m	CAD Dollar £m	N.Zealand Dollar £m	Hong Kong Dollar £m	PLN Zloty £m	Singapore Dollar £m	Total £m
31 March 2015	873.1	446.9	746.3	605.0	5.6	20.2	62.4	14.2		2,773.7
31 March 2016	1,634.5	210.5	771.6	534.2	8.7	21.7	125.0	29.6	6.7	3,342.5

Company	Sterling £m	Euro £m	Yen £m	US Dollar £m	CAD Dollar £m	N.Zealand Dollar £m	Hong Kong Dollar £m	PLN Zloty £m	Singapore Dollar £m	Total £m
31 March 2015	873.1	446.9	746.3	605.0	5.6	20.2	62.4	-		2,759.5
31 March 2016	1,634.5	210.5	771.6	534.2	8.7	21.7	125.0	0.8	6.7	3,313.7

### 15. Fair Value of Financial Assets and Financial Liabilities

The fair value of financial assets and financial liabilities has been determined in accordance with the following hierarchy, as numbered in the above table:

	Note	Carrying amount		Fair value		Fair Value Hierarchy
		2016	2015	2016	2015	
		£m	£m	£m	£m	
<b>Group:</b>						
<b>Financial assets:</b>						
Cash and cash equivalents	18	2.1	0.8	2.1	0.8	1
Trade debtors		44.0	35.5	44.0	35.5	3
Loans and receivables	12	3,094.8	2,706.9	3,104.3	2,752.6	3
Derivative assets	13	103.6	41.4	103.6	41.4	2
<b>Total</b>		<b>3,244.5</b>	<b>2,784.6</b>	<b>3,254.0</b>	<b>2,830.3</b>	
<b>Financial liabilities:</b>						
Bank overdraft	18	4.7	4.3	4.7	4.3	1
Trade creditors and accruals, including balances due to invoice financing clients		111.6	106.9	111.6	106.9	3
Interest bearing borrowings	14	3,342.5	2,773.7	3,406.2	2,766.8	3
Derivative liabilities	13	47.5	154.2	47.5	154.3	2
<b>Total</b>		<b>3,506.3</b>	<b>3,039.1</b>	<b>3,570.0</b>	<b>3,032.3</b>	
<b>Company:</b>						
<b>Financial assets:</b>						
Cash and cash equivalents	18	36.6	-	36.6	-	1
Trade debtors		0.1	0.1	0.1	0.1	3
Loans and receivables	12	3,541.8	3,099.2	3,551.3	3,144.9	3
Derivative assets	13	103.6	41.4	103.6	41.4	2
<b>Total</b>		<b>3,682.1</b>	<b>3,140.7</b>	<b>3,691.6</b>	<b>3,186.4</b>	
<b>Financial liabilities:</b>						
Bank overdraft	18	2.6	7.4	2.6	7.4	1
Trade creditors and accruals, including balances due to invoice financing clients		87.5	83.9	87.5	83.9	3
Interest bearing borrowings	14	3,313.7	2,759.5	3,406.2	2,766.8	3
Derivative liabilities	13	47.5	154.2	47.5	154.2	2
<b>Total</b>		<b>3,451.3</b>	<b>3,005.0</b>	<b>3,543.8</b>	<b>3,012.3</b>	

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 15. Fair Value of Financial Assets and Financial Liabilities (continued)

- Level 1: The fair value of financial assets and financial liabilities with standard terms and conditions and traded on an active liquid market, determined by reference to quoted market prices.
- Level 2: The fair value of derivatives in the disclosure above has been determined using discounted cash flow models using observable market inputs in the form of yield curves in each relevant currency and spot foreign currency exchange rates to convert values to Sterling. This excludes any option derivatives, which have been valued using option pricing models based on observable market inputs such as volatility, discount rates and foreign exchange rates. The fair value of derivatives is further adjusted by taking account of both the Group's counterparties' and its own credit spreads applied to cash flows owed to and from the group. These credit spreads were derived from observable market prices of credit default swaps and other market based credit spreads.
- Level 3:
  - The fair value of loans and receivables has been determined by using a model that uses as input the observable market interest rate for the relevant tenor of each asset, and its change from the time of inception of the asset to the statement of financial position date. Further adjustments to take account of customer credit risk uses unobservable inputs.
  - The fair value of own borrowings in the table above has been determined using discounted cash flow models using observable market inputs in the form of yield curves in each relevant currency and spot foreign currency exchange rates to convert values to Sterling. Further adjustment to take account of the Group's own credit risk uses unobservable market inputs.

### 16. Inventories

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Motor vehicles for resale	7.5	9.3	0.8	0.2
Vehicles not yet in leasing agreement	3.8	2.2	-	-
<b>Total</b>	<b>11.3</b>	<b>11.5</b>	<b>0.8</b>	<b>0.2</b>

### 17. Trade Receivables and Other Assets

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Trade debtors and prepayments	54.8	46.7	3.8	7.4
Other debtors	2.9	6.9	4.3	1.2
<b>Total</b>	<b>57.7</b>	<b>53.6</b>	<b>8.1</b>	<b>8.6</b>

Trade debtors and prepayments principally comprise operating lease rentals receivable, which are non-interest bearing and generally on 30 day terms.

As at 31 March 2016, the trade debtor impairment provision was as follows:

	Group £m	Company £m
At 31 March 2014	0.9	-
Net (decrease) for the year	(0.3)	-
At 31 March 2015	0.6	-
Net (decrease) for the year	(0.2)	-
<b>At 31 March 2016</b>	<b>0.4</b>	<b>-</b>



## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 18. Cash and Cash Equivalents and Overdrafts

Cash and overdrafts held by the Group all have an original maturity of three months or less. The Group has no cash equivalents.

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 31 March 2016:

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Cash	2.1	7.7	36.6	-
Bank overdrafts	(4.7)	(11.2)	(2.6)	(7.4)
<b>Cash and cash equivalents</b>	<b>(2.6)</b>	<b>(3.5)</b>	<b>34.0</b>	<b>(7.4)</b>

In accordance with the security arrangements of liabilities as disclosed in note 14 to the financial statements, a net bank overdraft of £4.7m (2015: £4.3m) is secured by cash as part of an interest offset arrangement between some accounts held by the Group with HSBC. Under this arrangement, in a situation of default by the Group, HSBC may apply credit bank balances to satisfy bank balances in deficit held by the Group with HSBC.

### 19. Share Capital

The Company has one class of ordinary shares, which carry no right to fixed income.

	2016 £m	2015 £m
<b>Authorised</b>		
80,000,000 ordinary shares at 25p each (2015: 80,000,000)	20.0	20.0
<b>Issued and fully paid</b>		
42,674,511 ordinary shares at 25p each (2015: 42,674,511)	10.7	10.7

### 20. Dividends Paid and Proposed

	2016 £m	2015 £m
<b>Declared and paid during the year</b>		
Final dividend for the year ended 31 March 2015 of 33.3p per share (2014: 27.8p)	14.2	11.9
Interim dividend for the year ended 31 March 2016 of 0p per share (2015: 13.3p)	-	5.7
	<b>14.2</b>	<b>17.6</b>
<b>Proposed for approval at the Annual General Meeting</b>		
(not recognised as a liability as at 31 March)		
Final dividend for the year ended 31 March 2016 of 0p per share (2015: 33.3p)	-	14.2

The Group's dividend policy is to retain 70% of Profit after Tax and pay 30% as dividend. However, the group has agreed with its parent company not to make dividend pay-outs in order to build its retained profit balance and lower its debt to equity multiple. This voluntary decision by the HCUK Board is going to target a reduction in the debt to equity multiple from 12 x to circa 8 x in order to benefit both external credit rating and HMRC Thin Capitalisation factors. Therefore, no interim dividend in the year was proposed (2015: 13.3p per share) and the directors have proposed no final dividend for the year ended 31 March 2016 (2015: 33.3p per share).

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 21. Provisions

	Customer claims	Onerous lease and dilapidations	Company Total	Onerous lease and dilapidations	Other	Group Total
	£m	£m	£m	£m	£m	£m
<b>At 31 March 2015</b>						
Current	22.3	0.3	22.6	-	0.4	23.0
Non current	0.5	1.0	1.5	0.3	-	1.8
<b>Total</b>	<b>22.8</b>	<b>1.3</b>	<b>24.1</b>	<b>0.3</b>	<b>0.4</b>	<b>24.8</b>
Arising during the year	8.4	0.1	8.5	-	0.6	9.1
Unused amounts reversed	(1.3)	-	(1.3)	-	-	(1.3)
Utilised	(7.4)	(0.4)	(7.8)	-	(0.1)	(7.9)
<b>At 31 March 2016</b>	<b>22.5</b>	<b>1.0</b>	<b>23.5</b>	<b>0.3</b>	<b>0.9</b>	<b>24.7</b>
Analysed as						
Current	22.0	0.6	22.6	-	0.9	23.5
Non current	0.5	0.4	0.9	0.3	-	1.2

#### Customer Claims

In certain situations, the Group is jointly and severally liable to customers who have claims against suppliers for misrepresentation or breach of contract, in respect of certain types of regulated agreements. This risk is minimised by the Group through regular due diligence reviews of the suppliers through which financed products are sold and termination of business where there is higher potential risk of default recognised. The provision booked is based on current information and key assumptions regarding the expected level of claims relating to suppliers experiencing difficulties and historical costs incurred to date in respect of claims. The key assumptions take into account the number of potential claimants, the amounts financed and any other compensation claim as a result of the suppliers failing to satisfy its obligation. These claims have been classified as current which is consistent with our legal obligations for current and prior year presentation.

#### Onerous Lease and Dilapidations

The Group's registered office and Business Finance operation moved to new premises in November 2012. As a consequence, lease arrangements are currently in place for two premises, and an onerous lease provision is held for the previous premises based on expected costs related to these premises and key assumptions with respect to the likelihood of sub-letting. Dilapidations provisions have been created for the Group's previous registered office, along with its leased sites at Staines, Leeds and Newbury and represents an estimate of the work required to bring it back to its original state at the end of the contract. The estimated outflow of the non-current element of this provision is expected to be: less than five years £0.7m (2015: £0.7m), over 5 years but less than 10 years £nil (2015: £nil) and over 10 years £0.4m (2015: £0.6m).

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 22. Retirement Benefit Pension Schemes

#### Defined contribution pension scheme

The group operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the group in an independently administered fund.

The total cost charged as an Administrative expense to the consolidated income statement of £1.9m (2015: £1.7m) represents contributions payable to the scheme at rates specified in the rules of the scheme. There were no unpaid contributions at either 31 March 2016 or 31 March 2015.

#### Defined Benefit Pension Scheme

The group operates a funded pension scheme providing benefits based on final pensionable earnings, which has been closed to employees joining since 2002. The scheme is set up under trust, with the assets held separately from the group and managed by an independent set of trustees. The trustees are required by law to act in the best interest of the plan participants and are responsible for setting the plan's investment and governance policies and paying benefits. The plan is approved by HMRC for tax purposes. No other post-retirement benefits are provided.

Under the UK's pension plan funding requirements, the trustees and the group together agree a funding strategy and contribution schedule for the scheme every three years. The latest review was as at 31 March 2013, and the group agreed a contribution schedule that aimed to remove the deficit in the scheme by 31 March 2014. The group expects to contribute £0.6m to the scheme during the year ending 31 March 2017.

As with the vast majority of similar arrangements, the group ultimately underwrites the risks relating to the scheme. These risks include investment risks and demographic risks, such as the risk of members living longer than expected. The scheme holds a significant proportion of its assets in equity, corporate and government bonds, property and diversified growth fund investments. Strong future returns on these assets would be expected to reduce the group's future cash contributions (and vice versa). If the contributions currently agreed are insufficient to pay the benefits due, the group will need to make further contributions to the scheme. The group is not exposed to any unusual, entity specific or plan specific risks.

The valuation of the present value of the defined benefit obligation was carried out at 31 March 2016 by Lane Clark & Peacock LLP, an independent qualified actuary, the calculations for which were based on the membership data used for the scheme's latest formal actuarial valuation as at 31 March 2013 projected to the accounting date. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The weighted average duration of the defined benefit obligation is 23 years (2015: 25 years), and most of the benefit payments are linked to future levels of inflation.

The main assumptions used for the valuation of the defined benefit obligation are as follows:

	2016	2015
<b>Significant assumptions:</b>		
Retail price inflation	3.0% pa	3.0% pa
Discount rate	3.6% pa	3.4% pa
Life expectancy of		
Male aged 65 now	22.9 years	22.9 years
Male aged 65 in 20 years	24.8 years	24.7 years
Female aged 65 now	25.5 years	25.4 years
Female aged 65 in 20 years	27.5 years	27.4 years
<b>Other related assumptions:</b>		
Consumer price inflation	2.0% pa	2.0% pa
General salary increases	3.0% pa	3.0% pa
Pension increases in payment		
5.0% or RPI if less	2.9% pa	2.9% pa
3.0% or CPI if less	1.8% pa	1.8% pa
2.5% or RPI if less	2.0% pa	2.0% pa

The assumptions used to determine end-of-year benefit obligations are also used to calculate the following year's cost.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 22. Retirement benefit pension schemes (continued)

Amounts recognised in the income statement, including administrative expenses, in respect of the scheme are as follows:

	2016	2015
	£m	£m
Current service cost	0.6	0.5
Administrative expenses	0.2	0.2
Net interest credit on net defined benefit asset	(0.1)	(0.2)
<b>IAS19 cost for the year</b>	<b>0.7</b>	<b>0.5</b>

The IAS19 cost has been included in Administrative expenses.

In addition, an actuarial gain of £1.1m (2015: loss of £3.8m) has been recognised in the consolidated statement of comprehensive income. The actual return on scheme assets was a loss of £0.1m (2015: gain of £5.6m).

The amount recognised in the statement of financial position arising from the Group's and the Company's obligations in respect of the scheme is as follows:

	2016	2015
	£m	£m
Present value of defined benefit obligations	(43.5)	(44.7)
Fair value of scheme assets	45.2	45.3
<b>Asset recognised in the statement of financial position</b>	<b>1.7</b>	<b>0.6</b>

Movements in the fair value of scheme assets, present value of defined benefit obligations, and net asset were as follows:

	Fair value of scheme assets		Present value of obligations		Net Asset / (liability)	
	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m
At 1 April	45.3	39.6	(44.7)	(35.4)	0.6	4.2
Current service cost	-	-	(0.6)	(0.5)	(0.6)	(0.5)
Administrative expenses	(0.2)	(0.2)	-	-	(0.2)	(0.2)
Interest	1.6	1.8	(1.5)	(1.6)	0.1	0.2
Contributions from scheme members	0.1	0.1	(0.1)	(0.1)	-	-
Contributions from the employer	0.7	0.7	-	-	0.7	0.7
Re-measurement of gains/losses due to:	(1.7)	3.8	2.8	(7.6)	1.1	(3.8)
Experience	-	-	-	-	-	-
Changes in financial assumptions	-	-	2.8	(7.6)	2.8	(7.6)
Changes in demographic assumptions	-	-	-	-	-	-
Return on plan asset minus interest	(1.7)	3.8	-	-	(1.7)	3.8
Benefits paid	(0.6)	(0.5)	0.6	0.5	-	-
<b>At 31 March of current year</b>	<b>45.2</b>	<b>45.3</b>	<b>(43.5)</b>	<b>(44.7)</b>	<b>1.7</b>	<b>0.6</b>

Analysis of the fair value of the scheme assets at the reporting date is as follows:

	2016	2015
	£m	£m
Equity instruments	15.5	15.9
Government Bonds	10.7	10.6
Corporate Bonds	4.7	4.6
Property	6.6	6.1
Net current assets	(0.1)	-
Diversified growth fund	7.8	8.1
<b>Total</b>	<b>45.2</b>	<b>45.3</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 22. Retirement benefit pension schemes (continued)

The scheme's assets are invested in a diversified range of asset classes. These assets include liability matching assets purchased by the trustees that aim to match the benefit payments from the scheme over the next 15 years, and return seeking assets to fund the remaining cashflows.

The scheme does not invest directly in property occupied by the group or in financial securities issued by the group. Each of the asset classes have prices quoted in an active market except for the diversified growth fund. Diversified growth funds invest in a range of underlying asset classes and derivatives: typically equities, bonds (including high yield and emerging market debt), hedge funds, commodities, infrastructure and property, and vary their allocations to these markets tactically. They aim to achieve long term returns that are broadly in line with long term equity returns, but with lower volatility and an element of capital preservation.

The table below shows how the defined benefit obligation as at 31 March 2016 would be affected by changes in each of the significant actuarial assumptions:

		Increase/(decrease) in obligation		Increase/(decrease) in plan assets		Increase in net liability	
	Change in assumption	31 March 2016	31 March 2015	31 March 2016	31 March 2015	31 March 2016	31 March 2015
		£m	£m	£m	£m	£m	£m
Discount rate	Increase 0.1% pa	(0.9)	(1.1)	(0.3)	(0.4)	(0.6)	(0.7)
RPI inflation	Increase 0.1% pa	0.9	0.9	0.3	0.3	0.6	0.6
Life expectancy at 65	Increase 1 year	1.5	1.5	-	-	1.5	1.5

If the assumption were decreased rather than increased, then the impact would have the opposite sign and broadly be of the same magnitude. Each assumption has been varied individually and a combination of changes in assumptions could produce a different result. For consistency, the value of the scheme's holding of bonds has been varied consistently with the change in the discount rate and inflation assumptions.

### 23. Trade and Other Payables

	Group 2016	Group 2015	Company 2016	Company 2015
	£m	£m	£m	£m
Current (trade and other payables)				
Balances due to invoice financing clients	54.0	52.9	54.0	52.9
Rentals in advance and deferred maintenance	47.5	42.3	-	-
Trade creditors and accruals	59.0	52.2	33.4	31.0
Other creditors	10.7	19.9	7.6	7.0
<b>Total</b>	<b>171.2</b>	<b>167.3</b>	<b>95.0</b>	<b>90.9</b>
Non current (other liabilities)				
Rentals in advance and deferred maintenance	-	-	-	-
Retailer liability	53.6	51.1	53.6	51.1
<b>Total</b>	<b>53.6</b>	<b>51.1</b>	<b>53.6</b>	<b>51.1</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 24. Related Party Disclosures

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. During the year, Group companies entered into the following transactions with related Hitachi companies who are not members of the Group:

- Administration fee of £nil (2015: £0.1m) received in respect of the provision of treasury related services to Hitachi Capital America Corporation.
- Lease income received from various Hitachi companies of £1.6m (2015: £0.8m). Amounts due from related parties in respect of leases at the year-end were £35.8m (2015: £16.5m).
- Interest paid to Hitachi companies of £0.9m (2015: £1.1m). Amounts due to related parties in respect of interest expense at the year-end were £0.1m (2015: £0.1m).
- Borrowings from Hitachi companies outstanding at the year-end were £71.9m (2015: £71.9m).
- Receivables from Hitachi companies outstanding at the year-end were £19.8m (2015: £26.8m).
- Charges of £5.6m (2015: £5.1m) were paid to Hitachi group companies, including Hitachi Capital Corporation (parent company). Amounts payable to Hitachi Capital Corporation at the year-end were £2.8m (2015: £2.3m) and £0.0m (2015: £0.3m) to other Hitachi group companies.
- Dividends paid to Hitachi Capital Corporation of £14.2m (2015: £17.6m).

### 25. Remuneration of Key Management Personnel

The remuneration of the executive directors, who are the key management personnel of the Group, is set out below.

	2016 £m	2015 £m
Short term employee benefits	1.4	1.8
Amounts receivable under long term incentive plans	0.5	0.5
Post employment benefits	0.1	0.1
<b>Total</b>	<b>2.0</b>	<b>2.4</b>
Aggregate amount of remuneration paid to the directors	1.4	1.8
Highest paid director's remuneration in the year	0.6	0.5

There is one director for whom retirement benefits are accruing under the Group's defined contribution scheme. The post-employment benefits above comprise of the value of Company contributions paid to the pension schemes on behalf of these directors; neither of whom were the highest paid director.

### 26. Operating Lease Arrangements

#### Lessee Activities

The following disclosures relate to the activities of the Group and the Company where they act as lessee:

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
<b>Minimum lease payments under operating leases recognised in the income statement during the year</b>				
Plant and equipment	0.6	0.6	-	-
Land and buildings	1.5	1.4	1.1	1.0
<b>Total</b>	<b>2.1</b>	<b>2.0</b>	<b>1.1</b>	<b>1.0</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 26. Operating Lease Arrangements (continued)

At the reporting date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due for recognition in the income statement as follows:

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Within 1 year	1.3	1.3	1.0	1.1
More than 1 year but less than 5	3.9	4.1	3.7	3.6
Over 5 years	7.3	8.7	7.3	8.7
<b>Total</b>	<b>12.5</b>	<b>14.1</b>	<b>12.0</b>	<b>13.4</b>

Operating lease payments represent rentals payable by the Group for certain of its office properties and related office equipment; they also include an unoccupied office for which an onerous lease provision is held (refer note 21). Leases are negotiated for a term of three to fifteen years.

### Lessor Activities

The Group, through Vehicle Solutions, Business Finance and Hitachi Capital Polska (formerly Corp Flota), acts as a lessor of vehicles and other assets, the leases for which are generally for terms between three and five years. Operating lease rental income on vehicles and other assets form a significant part of the Group's business and during the year amounted to £218.7m (2015: £212.4m).

At the reporting date the Group had contracted with lessees for the following future minimum lease payments:

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Within 1 year	173.4	167.5	7.7	10.6
More than 1 year but less than 5	204.8	207.5	15.6	18.3
Over 5 years	10.8	3.6	0.1	-
<b>Total</b>	<b>389.0</b>	<b>378.6</b>	<b>23.4</b>	<b>28.9</b>

### 27. Contingent Liabilities

There were no contingent liabilities as at 31 March 2016 (2015: none).

### 28. Insurance

The Group's insurance activities are undertaken by its subsidiary Hitachi Capital Insurance Europe (HCIE). In 2009, management decided to close HCIE to new business and restrict operations to managing outstanding policies, thereby placing the business in run off. All policies did expire prior to the end of March 2016. Policies were cancelled early where the terms and conditions allowed and others reinsured to reduce risk. The risk attached to the insurance policies written by HCIE were the possibility that an insured event occurs and the uncertainty of the amount of the resulting claim.

There were no specific terms and conditions of insurance contracts that had a material effect on the amount, timing and uncertainty of the Group's future cash flows. The Group had no interest rate exposure from general insurance liabilities because provisions for claims under insurance contracts were not discounted.

### Premium Income and Unearned Insurance Premium

Net insurance premium revenue recognised during the year was £nil (2015: £nil) and therefore not separately disclosed.

There was no unearned insurance premium as at 31 March 2016 (2015: £nil).

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 28. Insurance (continued)

#### Claims Expense and Provision for Insurance Claims Liabilities

Net insurance claims incurred during the year have been determined as follows:

	2016 £m	2015 £m
Claims incurred and loss adjustment expenses	-	(0.3)
Other	-	(0.2)
<b>Net insurance claims incurred</b>	<b>-</b>	<b>(0.5)</b>

Movements in the provision for insurance claims liabilities during the year were as follows:

	Gross 2016 £m	Net 2016 £m	Gross 2015 £m	Net 2015 £m
At 1 April	0.2	0.2	1.0	1.0
Losses and expenses incurred				
IBNR movement	(0.1)	(0.1)	(0.5)	(0.5)
Claim expenses	-	-	-	-
Total	0.1	0.1	(0.5)	(0.5)
Increase in run off administrative expenses	-	-	(0.2)	(0.2)
Total payments in the year	-	-	(0.1)	(0.1)
<b>At 31 March</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>

Provisions for claims reported were estimated using the latest available information which comprises up to date reports from loss adjusters or fronting insurers. On that basis, there were no significant assumptions impacting on the level of claims other than the assumption that the information used was complete and accurate. Due to the amount of time over which claims can develop, there may be significant uncertainty over the level of these reserves. Provisions for liabilities may therefore vary as a result of subsequent developments.

The reserving policy for future claim liabilities is to make provision for future claim liabilities at the 95th percentile. The estimation of the IBNR reserve is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to HCIE, where information about the claim event is available. IBNR claims may not become apparent to the insurer until several months after the events, which gave rise to the claims, have occurred. Actual claims in recent years have been materially the same as that estimated. Actual claims incurred by HCIE do not differ significantly from original estimates of claims and hence a claims development table is not included in the financial statements; directors assess and monitor the uncertainty regarding claims settlement on a continuing basis.



## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 29. Financial Risk Management Objectives and Policies

#### 29.1 Credit Risk

The Group's principal financial assets are cash and bank balances, loans and receivables, trade and other receivables, and derivative financial instruments.

The Group's credit risk is primarily attributable to its loans and receivables. The amounts presented in the statement of financial position are net of allowances for impairment losses. The gross amounts of loans and receivables represent the Group's maximum exposure to credit risk and are set out in note 12. The Group also bears credit risk associated with the rental payments due from customers related to operating lease assets, the outstanding portion of which is included within trade receivables set out in note 17.

The Group has guaranteed £2.3m (2015: £2.1m) of lease payments due from businesses in France, Poland, Turkey, Italy and Switzerland to third party lessors and receives a fee for these services.

The Group has a Credit Risk Committee ("CRC") that provides a key element of an effective second line of defence to the risk management functions within the Group's business units. The CRC sets the Group's risk appetite and oversees the adherence of individual business units to their respective risk appetite policies.

Credit risk is managed to minimise losses, maximise recoveries and prevent fraud. Credit policy requires consideration to be given to the financial and credit status of the customer, dealer, supplier and/or vendor (including retailers and brokers), the quality of any collateral taken or of the asset being financed and the terms and conditions which are applied to the financing.

Procedures are maintained that stipulate such factors as maximum loan amounts and funding periods, requirements for down payments or deposits, deferral periods and authorisation limits. Customer scorecards are extensively used throughout the retail and small-ticket commercial businesses. Detailed credit files are maintained for larger commercial transactions and significant relationships. Material changes to credit risk appetite, and significant facility limits and extensions of credit typically require director or senior executive approval. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Where the exposure to any one counterparty exceeds certain levels, annual reviews are performed to ensure that the credit quality has not deteriorated.

Credit risk arising from balances held with banks and financial institutions is managed by Group Treasury in accordance with the Group's counterparty risk management policy outlined below. Investments of surplus funds are made only with approved counterparties.

The credit risk exposure from any cash deposits and derivative financial instruments is constantly measured by counterparty and monitored relative to individual counterparty limits in accordance with the Board approved Treasury policy. Counterparties are selected and assessed on their prospects for long term stability of credit rating for which the Group seeks a minimum long term credit rating by Standard & Poor's of at least 'A-' (and a short term rating of 'A-1'). Swap counterparty creditworthiness is also monitored on a regular basis using any other available indicators such as standard 5 year credit default swap prices.

Accounting policy and valuation methods were disclosed in prior year to comply with IFRS 13 on a prospective basis and as of the balance sheet date incorporate counterparty risk adjustments into the valuation of derivative financial instruments.

The Group has exposure to a limited number of banking counterparties through depositing cash in time deposits. Cash balances and deposits by the Group are maintained at nil or insignificant levels, except in the Group's insurance subsidiary (HCIE), which is registered in the Republic of Ireland where a minimum liquidity level, including deposit balances, is stipulated by the Irish insurance regulator. These deposits are split between three to four different UK and Irish regulated banks with a minimum credit rating of 'BBB+'.

The Group does not have any financial liabilities designated at fair value through profit or loss, and therefore there has been no revaluation of financial liabilities for own credit risk. This includes financial liabilities in hedge relationships as the Group does not hedge credit risk. The changes in the fair value of financial liabilities recognised in the income statement are principally due to changes in market foreign exchange rates and interest rates for those instruments in designated hedge relationships.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 29.1 Credit Risk (continued)

#### Credit Quality

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
<b>Gross loans and receivables and trade debtors:</b>				
<b>Neither past due nor impaired:</b>				
Very low risk	1,700.7	1,612.4	2,167.4	2,015.9
Low risk	847.9	840.4	838.1	837.4
Moderate risk	561.6	378.6	561.6	378.6
High risk	255.7	194.8	255.7	194.8
Ungraded	92.5	83.7	50.5	46.0
<b>Total</b>	<b>3,458.4</b>	<b>3,109.9</b>	<b>3,873.3</b>	<b>3,472.7</b>
<b>Past due but not impaired:</b>				
< 30 days	4.3	4.1	4.3	4.0
31-60 days	29.8	20.9	19.8	17.1
61-90 days	4.4	3.4	2.8	2.6
91-365 days	6.0	3.8	3.8	1.5
>365 days	2.0	9.6	2.0	9.6
<b>Total</b>	<b>46.5</b>	<b>41.8</b>	<b>32.7</b>	<b>34.8</b>
<b>Individually impaired</b>				
Retail	14.7	11.5	14.7	11.5
Commercial	77.1	46.4	76.6	45.7
<b>Total</b>	<b>91.8</b>	<b>57.9</b>	<b>91.3</b>	<b>57.2</b>
<b>Total</b>	<b>3,596.7</b>	<b>3,209.6</b>	<b>3,997.3</b>	<b>3,564.7</b>
Gross loans and receivables	3,551.6	3,173.5	3,997.2	3,564.6
Trade debtors	45.1	36.1	0.1	0.1

Categories of credit risk quality are determined at an agreement or facility level using both internal risk management inputs and external inputs from credit risk rating agencies. The inputs used are specific to the business unit in which the exposure exists, but common categories of credit risk have been determined to monitor portfolio credit quality across the Group. The categories are based primarily on aligning estimates of probability of default but also on management judgement.

Those categories that are 'ungraded' have not been specifically rated by the business for various reasons such as a lack of relevant or comparable information, or the fact that they are short term in nature and are perceived to be low in inherent risk.

'Individually impaired' leases and loans include agreements that are performing as agreed and are not past due, but where regular re-scoring or other review of the obligor has detected an apparent increase in the risk of default when compared to the basis on which the extension of credit was originally underwritten, resulting in an impairment provision to be applied. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 12.

#### Collateral

The Group maintains policies setting out acceptable collateral and other criteria to be considered when reviewing a loan application. The decision as to whether or not collateral is required will be based upon the nature of the transaction and the credit worthiness of the customer. The provision of collateral will not necessarily determine the outcome of a credit application. The fundamental business proposition must evidence the ability of the obligor to generate funds from normal income or business sources to repay debt. The extent to which collateral values are actively managed or monitored will depend on the credit quality and other circumstances of the obligor.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 29.1 Credit Risk (continued)

#### Collateral (continued)

Although lending decisions are primarily based on expected cash flows and debt service ability, any collateral provided may influence the pricing and other terms of a loan or facility granted; this may have a financial impact on the amount of net interest income recognised and on internal estimates of loss given default that contributes to the determination of asset quality. The Group believes that this approach is appropriate. The value of collateral is reassessed if there is observable evidence of distress of the obligor. Unimpaired lending, including any associated collateral, is managed on a customer by customer basis rather than a portfolio basis.

A general description of collateral held as security in respect of loans and receivables in each business unit is provided below.

#### (a) Consumer Finance

Most lending is unsecured and therefore no collateral is held. However, for certain retailers, a portion of the cash flows financed are deferred and held by the Group to cover possible future credit losses, see note 2.3(j). At the year ended 31 March 2016, deferred cash flows amounted to £53.6m (2015: £51.1m), against related gross loans and receivables of £1,746.9m (2015: £1,596.1m). There was no collateral held against gross loans and receivables amounting to £749.4m (2015: £635.0m). Of the total gross loans and receivables, £14.7m was impaired at the year-end (2015: £11.6m).

#### (b) Vehicle Solutions

Credit facilities are quantified and established for business customers based on the gross value of receivables calculated to be invoiced over the life of the lease contract or fleet management facility. Vehicle Solutions had gross loans and receivables outstanding amounting to £12.9m (2015: £11.0m), which related to finance leases. Payments due from customers under operating leases are included under trade receivables. The facilities and any customer exposures thereunder are secured on the passenger car and commercial vehicles leased to the customers under the contracts.

#### (c) Business Finance

Lending decisions for asset finance transactions are primarily based on an obligor's ability to repay the debt from normal business operations rather than reliance on the disposal of any security provided. Nevertheless, the original cost and expected collateral values of financed assets are rigorously assessed at the time of loan origination in line with credit risk policy (refer credit risk on page 55). Assets considered eligible for financing include but are not limited to vehicles, plant, manufacturing equipment, agricultural machinery and other moveable fixed assets. Collateral values are revisited after origination in the event of changes in the performance of the loans, e.g. customer default, or for significant customer exposures, at the time of annual review or facility renewals.

Certain extensions of credit within the Business Finance unit are made under block discounting agreements, the collateral for which consists of receivables under loans and leases originated by the borrower, which are sold to the Company in return for the advance. Gross receivables of £109.7m (2015: £95.7m) were held as security for net advances of £73.2m (2015: £65.4m) under such agreements. Collateral coverage for block discounting agreements is verified regularly by an internal audit team.

Of the total gross loans and receivables, £76.0m was impaired (2015: £43.8m). Of this amount, £73.9m (2015: £43.0m) was performing as agreed and not past due.

#### (d) Invoice Finance

Credit facilities are established by reference to the expected levels of drawings made by clients against the value of invoices assigned. The net loans and receivables for invoice finance, of £56.7m (2015: £69.2m) are primarily collateralised by trade receivables purchased from factoring clients which had a gross value of £110.8m (2015: £122.0m), and, in certain cases, by directors' or principals' personal guarantees and/or indemnities as additional security for shortfalls on collect outs due to disputes or fraud for which the guarantor is liable. Clients are subject to a rigorous programme of continuous verifications, reviews and audits.

#### e) Hitachi Capital Polska (formerly Corpo Flota)

Credit facilities are quantified and established for business customers based on the gross value of receivables calculated to be invoiced over the life of the lease contract or fleet management facility. Hitachi Capital Polska had gross loans and receivables outstanding amounting to £8.2m (2015: £1.3m), which related to finance leases. Payments due from customers under operating leases are included under trade receivables. The facilities and any customer exposures thereunder are secured on the passenger car and commercial vehicles leased to the customers under the contracts.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 29.2 Liquidity Risk and Funding Management

Liquidity risk is managed by the Treasury Committee and reviewed regularly. The Group's objective is to maintain a balance between continuity of funding, flexibility and cost through the use of borrowings with a range of maturities. The term of each borrowing is determined by considering the market conditions of each of the Group's debt instruments, funding cost and correlation with the Group's receivables. Included under funding sources below, is a list of undrawn facilities that the Group has at its disposal. In addition, the Group has uncommitted money market and overdraft facilities to provide short term financing.

The table below summarises the gross contractual maturity profile of the Group's financial liabilities. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations.

	<1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	5-6 years £m	>6 years £m	Total £m
<b>At 31 March 2016</b>								
<b>Non derivative financial liabilities:</b>								
Foreign currency denominated borrowings	(942.7)	(491.9)	(145.5)	(82.4)	(31.1)	(3.5)	-	(1,697.1)
Sterling borrowings	(295.5)	(202.2)	(529.4)	(150.2)	(69.1)	(96.7)	(51.0)	(1,394.1)
Securitisation	(164.0)	(81.7)	(30.6)	(14.3)	(4.1)	(0.7)	(0.1)	(295.5)
Trade payables	(171.2)	-	-	-	-	-	-	(171.2)
Financial Guarantees	(2.3)	-	-	-	-	-	-	(2.3)
	<b>(1,575.7)</b>	<b>(775.8)</b>	<b>(705.5)</b>	<b>(246.9)</b>	<b>(104.3)</b>	<b>(100.9)</b>	<b>(51.1)</b>	<b>(3,560.2)</b>
<b>Derivative financial liabilities:</b>								
Foreign currency receipts relating to cross currency swaps	(699.9)	(484.5)	(138.4)	(82.4)	(31.1)	(3.5)	-	(1,439.8)
Sterling payments relating to interest rate swaps	5.2	3.3	1.3	0.6	0.2	-	-	10.6
Sterling payments relating to cross currency swaps	681.2	466.4	130.3	78.3	28.6	3.1	-	1,387.9
	<b>(13.5)</b>	<b>(14.8)</b>	<b>(6.8)</b>	<b>(3.5)</b>	<b>(2.3)</b>	<b>(0.4)</b>	<b>-</b>	<b>(41.3)</b>
<b>At 31 March 2015</b>								
<b>Non derivative financial liabilities:</b>								
Foreign currency denominated borrowings	(733.1)	(612.2)	(430.8)	(68.7)	(75.7)	(6.4)	(3.4)	(1,930.3)
Sterling borrowings	(134.7)	(234.7)	(52.4)	(118.2)	(16.3)	(15.5)	(75.2)	(647.0)
Securitisation	(160.0)	(63.2)	(17.3)	(2.0)	(0.3)	-	-	(242.8)
Trade payables	(167.3)	-	-	-	-	-	-	(167.3)
Financial Guarantees	(2.1)	-	-	-	-	-	-	(2.1)
	<b>(1,197.2)</b>	<b>(910.1)</b>	<b>(500.5)</b>	<b>(188.9)</b>	<b>(92.3)</b>	<b>(21.9)</b>	<b>(78.6)</b>	<b>(2,989.5)</b>
<b>Derivative financial liabilities:</b>								
Foreign currency receipts relating to cross currency swaps	(501.3)	(612.0)	(430.8)	(68.7)	(75.7)	(6.4)	(3.4)	(1,698.3)
Sterling payments relating to interest rate swaps	4.8	2.4	0.8	0.3	0.2	0.1	-	8.6
Sterling receipts relating to interest rate swaps	-	-	(0.1)	-	-	-	-	(0.1)
Sterling payments relating to cross currency swaps	563.2	648.9	438.7	68.3	78.0	5.6	3.1	1,805.8
	<b>66.7</b>	<b>39.3</b>	<b>8.6</b>	<b>(0.1)</b>	<b>2.5</b>	<b>(0.7)</b>	<b>(0.3)</b>	<b>116.0</b>

The Group has a central treasury function which provides finance for the Group's operations and manages treasury risks in accordance with policies approved by the Board and Treasury Committee. The Treasury Committee consists of the CEO, the COO and the Group Treasurer. The major risks to the Group are liquidity, movement in foreign exchange rates, interest rate movements and counterparty credit risk.

The Group's principal sources of funding are European medium term notes, a securitisation programme, two commercial paper programmes, uncommitted bank facilities and a certain amount of borrowings from the Hitachi Limited group of companies. Rate risks on these funding sources are managed using derivative financial instruments.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 29.2 Liquidity Risk and Funding Management (continued)

The Group accesses a variety of markets to raise finance and issues both fixed and floating rate debt in a number of different currencies. All foreign currency borrowings are swapped into Sterling upon issuance to either floating interest rate linked to sterling LIBOR or at a fixed rate in sterling. The exception being, foreign currency borrowings used to fund foreign currency assets.

All interest bearing borrowings are subject to risk management in accordance with the Group's risk management policies on interest rate risk management. As a result, a certain proportion of the floating rate borrowings will be fixed by entering into Sterling interest rate swaps.

#### Funding Sources

The Group has a number of funding options and regularly reviews alternative sources of financing. In selecting the most appropriate source of funding at any point in time, factors such as market conditions, interest rate levels, liquidity and the profile of the assets being funded are considered.

The Group's core funding programmes and facilities are as follows:

	Amount drawn	Capacity available	Amount drawn	Capacity available
	2016	2016	2015	2015
	£m	%	£m	%
US\$4.0bn (2015: US\$3.0bn) European medium term note programme	1,433.0	49	1,606.0	40
US\$400m (2015: US\$400m) European commercial paper programme	29.5	89	115.2	57
€250m (2015: €205m) Belgian domestic commercial paper programme	195.5	1	102.4	43
£300m (2015: £550m) committed securitisation programme	291.3	3	236.0	-
£205m (2015: £324m) uncommitted Short term facilities from relationsh	48.1	77	68.2	79
£1.2bn uncommitted Long Term facilities from relationship banks	1,023.8	14	360.0	-
Syndicated Loans	213.3	-	199.8	-
Loans from Hitachi group undertakings	74.0	-	71.9	-
Other loans from banks	28.8	-	14.2	-
<b>Total Borrowings</b>	<b>3,337.3</b>	<b>-</b>	<b>2,773.7</b>	<b>-</b>

The European medium term note programme and both commercial paper programmes are supported by a guarantee from Hitachi Capital Corporation and consequently, are rated 'A-/A2' by Standard & Poor's.

The uncommitted facilities from relationship banks consist of unsecured short term money market and overdraft facilities, drawings under these facilities are generally for periods of between one day and three months.

### 29.3 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial instruments affected by market price risk include loans and receivables, interest bearing borrowings and derivative financial instruments.

The Group's particular activities expose it to the risk of changes in foreign currency exchange rates and sterling interest rates.

#### Interest Rate Risk

Most of the Group's assets are at a fixed rate of interest so there is a risk of financial loss if the actual funding cost for these assets rises above the rate at which they were priced at when originated. This risk is managed by the use of interest rate derivative financial instruments, specifically interest rate swaps, forward rate agreements and interest rate caps. Interest rate exposure is managed by duration, matching the fixed rate receivables and operating lease portfolio against the combination of fixed rate debt and the interest rate derivatives portfolio.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 29.3 Market Risk (continued)

#### Interest Rate Risk (continued)

Borrowings arranged at fixed interest rates expose the Group to fair value interest rate risk and those arranged at floating rates have cash flow interest rate risk.

The Group's policy is to hedge its exposure to variations in sterling interest rates. The degree to which borrowings are rate fixed, as compared to the size of the Group's underlying fixed rate assets, is expressed as a target ratio which is set by the Treasury Committee and reported to the Board on a monthly basis and is generally within a range of between 60% and 100%. The actual levels of fixed borrowings versus assets is reviewed at least monthly to monitor compliance to the set policy target.

#### Foreign Currency Risk

The Group's currency risk mainly arises from foreign currency borrowings. The carrying amount of the Group's foreign currency denominated monetary liabilities at the reporting date is set out in note 14.

The Group policy is to eliminate all foreign currency risk on borrowings by entering into cross currency swaps which convert non-sterling obligations under the debt issuance into sterling obligations. Currency debt raised under the medium term note and commercial paper programmes are 100% hedged at the time of drawdown unless foreign currency proceeds are required to fund foreign currency denominated assets. Currency rate risk will therefore only arise in the unlikely event of a swap counterparty defaulting on its non-sterling obligations. As at 31 March 2016 and 31 March 2015, all currency exposures on non-sterling debt were 100% hedged.

#### Market Risk Mitigation

The Group enters into a variety of derivative financial instruments to manage its exposure to these risks, including:

- Interest rate swaps to mitigate the risk of rising interest rates, and
- Cross currency swaps and short term FX swaps to mitigate the exchange rate risk arising on issuance of debt in foreign currency.

#### Interest Rate Swap Contracts

Under interest rate swap (IRS) contracts, the Group agrees to pay or receive the difference between variable and fixed interest rates calculated on an agreed notional principal amount. Such contracts allow the Group to mitigate the risk of changing interest rates on the cash flows of issued variable rate debt held and to a lesser extent the fair value of fixed rate debt held. The fair value of IRS's at the year-end have been determined by discounting the future cash flows for each contract using the yield curve as at the end of the year and the credit risk inherent in the contract.

Interest swaps settle on a monthly, quarterly or semi-annual basis and use LIBOR reference rates on the floating side of the swap. The Group settles on the difference between the fixed and floating interest rate on a net basis and, therefore, the Group recognises net derivative assets and liabilities based on overall exposure to individual counterparties.

Where possible, floating to fixed IRS's are designated for accounting purposes as cash flow hedges in order to reduce the variability of charges to the Group's income statement. In some cases, although the IRS's economically hedge the Group's cash flow exposure they cannot be designated as cash flow hedges under IAS39.

#### Interest Rate Sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates as at the reporting date and the stipulated change taking place at the end of the current financial year and were to persist for the coming financial year. A 100 basis points change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonably possible change in interest rates.

At the reporting date, if interest rates had been 100 basis points higher and all other variables were held constant:

- Net profit would be debited by £11.0m (2015: debited by £7.5m). This is mainly attributable to the Group's exposure to interest rates on variable rate borrowings.
- Other equity reserves would be credited by £38.1m (2015: credited by £22.1m) mainly as a result of the change in mark to market valuation of interest rate swaps in designated hedging relationships.

In the current climate it is not relevant to calculate the impact of interest rates being 100 basis points lower as this scenario is in some cases impossible and in others highly unlikely requiring negative interest rates.

The evaluation of a decrease of 100bp in Sterling interest rates is uncertain as this currently would imply a negative 3 month GBP Libor rate which may or may not be reflected in the remainder of the Sterling interest rate yield curve. However, a 50bp decrease in interest rate, reflected evenly across the yield curve, would result in Net profit being credited by £5.5m (2015: credited by £3.8m) & other equity reserves debited by £19.0m (2015: debited by £11.1m) approximately.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 29.3 Market Risk (continued)

#### Cross Currency Swap Contracts

The Group utilises cross currency swaps and short term FX swaps to hedge against the foreign currency exposure that arises from the issuance of debt in foreign currency. The contracts are for the full amount of the foreign currency debt raised, unless currency proceeds are required to fund currency denominated assets.

#### Foreign Currency Sensitivity

The Group's sensitivity to any reasonable depreciation or appreciation of GBP against foreign currencies would have no material impact on the Group as all foreign currency debt is hedged using derivative instruments.

Information concerning the Group's cross currency swaps is included in note 13.

#### Fair Value Hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in foreign currency exchange and interest rates. The hedged items include foreign currency borrowings and both listed and unlisted debt instruments. The Group uses cross currency swaps to hedge against specifically identified foreign currency and inherent rate risks.

#### Cash Flow Hedges

The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. Also, as a result of firm commitments in foreign currencies, such as foreign currency debt, the Group is exposed to foreign exchange and interest rate risks which are hedged with cross currency interest rate swaps.

### 29.4 Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

### 29.5 Residual Value Risk

This is the risk that the value of a physical asset, at the end of an operating or finance lease contract or at the end of its useful life, is worth less than its book value. Residual value risk occurs within our Vehicle Solutions, Business Finance and Hitachi Capital Polska sp zoo (formerly Corpo Flota sp zoo) businesses.

Future residual values are assessed individually, and positioned against competitor benchmark assets, and require senior management approval. The residual value position is monitored with reference to various industry benchmarking sources so that maturities can be managed effectively and any impairment risk minimised.

### 29.6 Capital Management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes borrowings disclosed in note 14, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 19 and the statement of changes in equity on page 17. The Board of Directors reviews the capital structure on a semi-annual basis. As a part of this review the Board considers the cost of capital and risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends to or capital injection from the parent company.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

### 29.7 Transfers of Financial Assets

Securitised assets are shown on the Group's Statement of Financial Position because as of reporting date the majority of the risks and rewards on the transferred assets are retained by the Group, refer note 2.3(q). Otherwise, the Group does not recognise any financial assets for which ownership has transferred nor does it have a continuing involvement in any other transferred assets.

In accordance with the Consumer Securitisation programme's terms and conditions, as at 31 March 2016 the Group (and the Company) had transferred £277.5m (2015: £328.6m) of its instalment finance agreements, with a fair value of £278.8m (2015: £334.3m) to The Royal Bank of Scotland plc, which acts as a trustee.

In accordance with the SME Securitisation programme's terms and conditions, as at 31 March 2016 the Group (and the Company) had transferred £116.6m (2015: £nil) of its instalment finance agreements, with a fair value of £117.1m (2015: £nil) to Citibank N.A., which acts as a trustee.

The Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as borrowings on the Group's statement of financial position - being a total of £291.3m (2015: £236.0m), with a fair value of £291.3m (2015: £236.0m) as at reporting date.

### 30. Contingent Consideration

On 3 April 2014, the Group acquired Hitachi Capital Polska sp zoo (formerly Corpo Flota sp zoo), an unlisted car fleet management company based in Poland, in exchange for £3.3m cash. As part of the purchase, the Group acquired Intangible assets with a fair value of £1.2m at the date of acquisition. The amount included £0.2m relating to Goodwill on acquisition.

As part of the purchase agreement with the previous owner of Hitachi Capital Polska (formerly Corpo Flota sp zoo), the Group paid 90% of the consideration in cash and entered into a put and call option to pay the remaining 10% at the end of 4 years from the date of acquisition subject to the performance of the entity.

Any increase in Residual Value provision for the acquired portfolio will result in an equal amount of reduction in contingent consideration. There will be no change to contingent consideration in the event of any decrease in Residual Value provision.

As at the acquisition date, the fair value of the contingent consideration was estimated to be PLN 1.8m. This amounted to £0.4m at the 31 March 2014 spot rate.

At 31 March 2016, the fair value of the contingent consideration was estimated to be £0.3m (2015: £0.4m).

### 31. Subsequent events

On 1 April 2016, the company acquired net assets of Hitachi Capital Vehicle Solutions Ltd, a company within the Group, for a consideration of £97.4m, amount equal to the net asset of Hitachi Capital Vehicle Solutions Ltd as at 31 March 2016.

On 13 May 2016, Hitachi Limited, the ultimate parent company, executed an agreement to transfer 27% of its investment in Hitachi Capital Corporation to Mitsubishi UFJ Financial Group, Inc (23%) and Mitsubishi UFJ Lease and Finance Company Ltd (4%). Following the sale expected to complete in the 3<sup>rd</sup> quarter of 2016, Hitachi Limited will continue to be the single largest shareholder of Hitachi Capital Corporation with 33.4% investment



## Company Information

Hitachi Capital Corporation a company incorporated in Japan is the parent undertaking of the smallest group to consolidate the financial statements of Hitachi Capital (UK) PLC. Copies of the financial statements of this company can be obtained from its registered office: No 3-1, Nishi Shimbashi, 1 Chome, Minato-ku, Tokyo 105-0003, Japan.

Hitachi Limited, a company incorporated in Japan, is the ultimate parent company and the parent undertaking of the largest group to consolidate the financial statements of Hitachi Capital (UK) PLC. Copies of the financial statements of this company can be obtained from its registered office: 6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8280, Japan.

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Registered Company number: 1630491

Company Secretary: J.N.M.Sims

Auditors: Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

The Group offers the following finance solutions from the locations shown below.

Consumer Finance	Vehicle Solutions		
2 Apex View and Interchange House Leeds West Yorkshire LS11 9BH Tel: 0844 375 5499 Fax: 0844 375 5491	<b>Car Solutions</b> Kiln House Kiln Road Newbury Berkshire RG14 2NU Tel: 0844 463 2900 Fax: 01635 589 750	<b>Commercial Vehicle Solutions</b> Hakuba House White Horse Business Park Trowbridge Wiltshire BA14 0FL Tel: 01225 777 710 Fax: 01225 776 680	<b>Driving Instructor Solutions</b> Willow Court 34 Thurmaston Lane Leicestershire LE5 0TE Tel: 0116 288 8288 Fax: 0116 288 6404
Business Finance	Invoice Finance		Hitachi Capital Polska sp zoo
Hitachi Capital House Thorpe Road Staines-upon-Thames Surrey TW18 3HP Tel: 01784 227300 Fax: 01784 227549	5 Hollinswood Court Stafford Park 1 Telford Shropshire TF3 3DE Tel: 01952 213 300 Fax: 01952 201 410	Isis House Red Cross Road Goring on Thames Reading RG8 9HG Tel: 01491 875 660 Fax: 01491 875 595	Palisadowa 20/22 01-940 Warsaw Poland Tel: (22) 833 77 44 Fax: (22) 833 91 99