

Hitachi Capital (UK) PLC

Annual Report and Financial Statements Year Ended 31 March 2017

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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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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 2017. 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.

At a Glance

Who we are

Hitachi Capital (UK) PLC (HCUK or "Group") is a leading financial services company with over 35 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 an affiliate of Hitachi Limited, recognised as a world leader for manufacturing and technology.

Our vision, mission 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 outcomes for all 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 are an appointed representative for insurance mediation activity. 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 strong values of the Hitachi Limited group's Japanese heritage.

What we do

The Group has Net Earning Assets* of £4.1bn with over 1,200 employees serving consumers and small to medium enterprises (SMEs) as well as corporate multinationals in the UK and mainland Europe.

We focus on markets where we can provide innovative solutions which 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*	£4.1bn
Profit before tax	£108.7m

*Net Earning Assets = Loans and receivables + Operating leased assets

Our target sectors

Consumer Finance

Hitachi Capital Consumer Finance is the UK's leading retail point of sale finance provider and also has a significant presence in both the motor finance and personal loans sectors, serving over 1.1 million UK customers with £2 billion of consumer lending during the year ended 31 March 2017. The business has over 30 years of experience and works with some of the leading brands on the high street. It has been an active partner for retailers in the UK, providing sales support consistently through economic cycles 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 as well as personal contract hire. 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 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.

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 600 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.

Group Strategic Report (continued)

Chairman's Statement

I am delighted to have joined the Board in February 2017 together with my fellow non-executive directors, the Board has very specific objectives to strengthen the leadership and governance, drive the strategy and performance and continue to develop the culture of the Group.

The Group has delivered strong financial performance in the last financial year and indeed has achieved very strong growth in profits of over 25% p.a. for the past ten years.

The Chief Executive Officer and his team are committed to providing outstanding customer experiences which, in turn delivers sustainable growth and strong returns to the shareholder. This has been achieved primarily in established markets in the UK. The next phase of growth will be to expand geographically and review our routes to market.

Results

The Group focuses on the retail point of sale and asset finance, which have been traditionally underserved by the mainstream banks. We seek to provide a service level and employ knowledge that is valued by our customers from simple, fast reliable decisions, to complex financing solutions.

Our growth has been achieved without changing our risk appetite or designing loss leading products to grow our sales penetration with the expectation of cross selling other financial products. Our margins and returns have remained stable as we have sought to reduce our cost of acquisition and deploy operational changes to continually improve efficiency. The Group has commenced major operational transformation programmes in its vehicle leasing and consumer lending businesses.

Dividend

The Board, in close consultation with the shareholder, has not recommended the payment of a dividend. The desire to maintain a low debt to equity ratio below 10:1, coupled with our growth plans for the future, resulted in a share issue during the year of £100m. This reflects the shareholders commitment to the UK, despite BREXIT and the weakening of the currency.

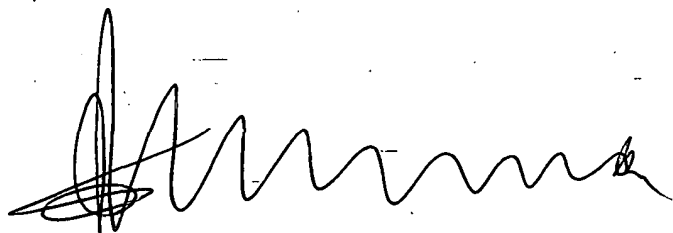
Governance

The Group has adopted the principles and provisions of the UK Corporate Governance to the extent that it considers them to be relevant to the Company and that is reflected in the appointment of three independent members to the Board and Audit Committee with strong leadership and regulatory backgrounds. The Board is committed to ensuring that the Group completes the financial conduct transformation plan, commenced in 2017, to improve the performance of all three lines of defence.

Outlook

I am very pleased to join the Board of a company with a strong culture of customer service, which has developed a business model which has stimulated growth during the recent financial crisis. Whilst uncertainty created by BREXIT and recent political developments are generally not conducive for business, they will also present opportunities.

I would like to thank our parent company for their support, my fellow Board members and the employees of the company for their contribution in the success we have achieved in the recent financial year and their commitment in strengthening Hitachi Capital for our future growth.



Guy Munnoch
Chairman of the Board
15 June 2017

Group Strategic Report (continued)

Chief Executive Officer's Review

In the last financial year we achieved our targets for profitability, asset quality, productivity and customer service. Reporting a new record level of profitability was not our greatest achievement. As a team we were more focussed on renewing over 95% of our major asset management and retail point of sales contracts during the year. This performance demonstrates that we are achieving our mission of providing exceptional customer experiences.

As a Group, we have clearly defined vision, mission and values and this has greatly assisted in us having a customer centric view rather than the traditional divisional transaction view. Our approach to Hitachi business has continued to evolve as we provide solutions to enable stock movement and sales rather than simply end customer finance. As we continue to develop products across our traditional business segments, we develop innovative solutions for business, not just the provision of finance.

The need to adapt and innovate to generate sales is the essence of Hitachi. During the credit crisis when many customers were simply not served by the mainstream banks we continued to improve our service and innovation to markets such as retail point of sale and asset finance, continually improving the speed and reliability of service.

The last year has presented new challenges for the Group. We have embarked on major operational reviews and front end system development to continually improve the customer experience. We have also had to meet the challenge of regulation, which drives the need for cultural change to ensure we evidence and monitor that all customers consistently receive fair outcomes. For a multi-product and multi-divisional business this has been a complex exercise to challenge and consistently retain evidence, without reducing our customer contact to highly scripted automated experiences. To retain high levels of customer service we believe it is an essential investment to retain personal service, at the same time as embracing regulation.

We are authorised and regulated by the FCA and currently hold interim permission status for consumer credit and appointed representative for insurance activity. We have been working closely with the FCA for full permission to be granted. I firmly believe we will be a stronger business upon the completion of our transformation plan and compliance with the regulations can only serve to enhance our Hitachi values.

Results

The Key Performance Indicators ("KPIs") presented below reflect the indicators management used to evaluate performance during 2016/17.

KPIs	2017	2016
Profit before Tax	£108.7m	£96.1m
Pre-Tax Return on Net Earning Assets	2.7%	2.6%
Bad Debt Ratio	0.5%	0.4%
New Business Volume	£3bn	£2.5bn
Cost income Ratio	48%	50%
Net Earning Assets	£4.1b	£3.8b
Number of Employees	1,214	1,138

Profit before tax was £108.7m, 13% higher than prior year driven by growth in Net Earning Assets and retaining a high quality portfolio as evidenced by a low level of bad debt losses. The Group charge for bad debt and impairment was £18.1m (2016: £16.2m). This level of bad debts at 0.5% of assets, consistent with the prior year, is slightly below industry average whilst our long term expectations remains at 0.7% of assets. Administration expenses for the year increased by 7.2% to £119.4m 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 21% (2016: 20%). It is expected that the effective rate of tax will be stable for the coming year.

The post-tax return on equity actually fell despite improved performance to 17.8% (2016: 25.6%) due to the issuance of £100m share capital and retention of earnings to build the equity base. Post-tax return on equity would have been 28.7% had we not taken actions to increase equity.

Group Strategic Report (continued)

Chief Executive Officer's Review (continued)

Divisional Highlights

Consumer Finance <ul style="list-style-type: none"> Over 1.1m customers New business of £2bn 46% growth in direct personal lending Net Earning Assets of £2.3bn Strong year with successful client retention and introduction of new approach to motor finance leveraging skills and experience gained in retail sector Your Money - 'Best Direct Personal Loan Provider 2016' in the latest Your Money Awards The Personal Finance Awards 2016/17 – Best Personal Loans Provider Institute of Customer Service Awards – Best Customer Satisfaction Strategy 2017 	Vehicle Solutions & Hitachi Capital Polska <ul style="list-style-type: none"> New business of £390m (17% increase from last year). Net Earning Assets of £729m (19% increase from prior year) Retention of our key strategic partners and significant new business wins. Commercial Fleet Award 2016 – Car/Truck Leasing Company of the Year
Business Finance <ul style="list-style-type: none"> New business of £566m, 13% increase against last year. Strong growth in Broker introduced business, Hitachi Group business and Stock Finance. Net Earning Assets of £962m, 13% increase against last year. Motor Vehicle Finance Provider of the Year award from the National Association of Commercial Finance Brokers (NACFB). Best Business Motor Finance Provider at Business Moneyfacts awards. Launched new online platform to enable SME's to apply for asset finance. 	Invoice Finance <ul style="list-style-type: none"> New business of £51m New clients increased by 14% over the year Extended terms finance product launched with pay-outs in excess of £26m Field-based Client Relationship team created Office expansion completed

Consumer Finance

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. 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.

Retailer point of sale finance accounted for 59% of HCCF's £2 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 19.7% up over the previous year due to strong demand for finance in the retail sector and demand for our personal loan and motor finance products. HCCF has been awarded ServiceMark accreditation from the Institute of Customer Service, reflecting our focus on delivering an excellent customer service experience.

Group Strategic Report (continued)

Chief Executive Officer's Review (continued)

Vehicles Solutions

We experienced strong growth in our Vehicle Solutions ("HCVS") division with organic growth and retention of our existing fleet customers providing us with new business volume up 15% at £364m (2016: £318m). We continue to provide innovative solutions and information to enable our customers to run more effective and efficient fleets in line with our parent Company's vision to build "a better society through technology".

Business Finance

The Business Finance ("HCBF") operation grew new business volumes by 13% over the previous financial year to £566m (2016: £500m) principally through our brokers operation and the development of Hitachi Limited vendor programmes, which are increasing Hitachi sales, particularly in the construction equipment market. During the year we continued to develop our on-line proposal and credit auto-decisioning system to the extent that it enables direct applications from SMEs. We do not expect significant direct volumes of business in the future as the UK market is highly reliant upon customer relationships. We expect e-commerce to increase the over size of the asset finance market over the medium term.

Business Development

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 11 countries including Turkey, Poland, France, Spain, Italy and Portugal.

The Hitachi Capital branded programmes are funded by us in the UK and Republic of Ireland, and in continental Europe are delivered through finance partners who we support with sales and marketing and risk sharing solutions for which we earn fee income. We are registering a branch office in The Netherlands in 2017 from where we will further develop our direct solution to support the rapid growth of our European business over the forthcoming years driving increased coverage, along with making small acquisitions in Europe to support our existing business segments.

Invoice Finance

Invoice Finance ("HCIF") operation doubled its new business volumes to £51.1m (2016: £25.8m) as we broadened the focus of the division to providing solutions to Hitachi group companies. We suffered a small number of losses earlier in the year with some of our larger clients, which caused us to re-evaluate our market position and improve internal controls and credit assessment. This has been disruptive to our service levels and generation of new business, however, the operational review has been completed and we are re-building the portfolio.

Discontinued Operations

Our insurance business, Hitachi Capital Insurance Europe Limited, was dissolved on 6 December 2016 with the Irish Companies Registration Office and subsequently the Company received a final capital repayment of £0.9m on 16 December 2016 (note 3).

Market Developments

Hitachi Capital (UK) PLC enjoyed another year of strong growth in assets and increased profitability, despite a year of uncertainty, which was exacerbated by the UK voting to leave the European Union. A survey we commissioned in October 2016 with the Centre for Economics and Business Research, indicated that over £65.6 billion of investment had been postponed or cancelled by UK business. The detailed findings from this report were widely published and presented to Government officials to highlight that BREXIT was having an impact and clarity and policies to aid investment were required.

We have also seen a number of new entrants to financial markets. The terms of Fin-tech and Challenger Bank are loosely used to label any new venture. Despite BREXIT and new entrants we have continued to focus on our specialised markets and present a compelling offer to our clients and customers. We have a good record of providing a consistent service through all economic cycles and a long history of trading required to receive sustainable long-term capital. We continue to focus on conduct, customer service and retaining a relevant position in all our markets to provide exceptional customer experiences.

Hitachi Developments

On 3 October 2016, our ultimate parent company, Hitachi Limited, sold 27% of its investment in our immediate parent company, Hitachi Capital Corporation, to Mitsubishi UFJ Financial group and Mitsubishi UFJ lease. Hitachi Limited remains the single largest shareholder and we actively support Hitachi programmes. The benefits of the diversification of shareholding beyond association with the largest Japanese banking group in the world are yet to be realised in the UK in terms of providing services to a wider group as the focus has been on Hitachi's social innovation business in Asia. We see working with Mitsubishi UFJ in the future as an opportunity for the Group.

Group Strategic Report (continued)

Chief Executive Officer's Review (continued)

Funding

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 7.0 times (2016: 10.5 times) and is well within the limit of 25 times equity set out in the Company's Articles of Association.

Principle risks and uncertainties

We recognise that we face many risks in delivering our objectives and meeting the requirements of all our stakeholders. Therefore we have continued to invest in enhancing our risk management capabilities across the Group. An enterprise wide approach to risk management is being adopted, underpinned by defined roles and responsibilities, improved governance and clear and fit purpose risk management processes. A programme of activity is underway, which will continue into 2017.

Current principal risks and uncertainties are set out in note 27. In addition, during the year a number of risks were considered and appropriate mitigating actions put in place in order to minimise the impact on the Group's performance and ability to meet its objectives. These included the uncertain economic environment, particularly as a result of the EU referendum, which is mitigated by a mixed portfolio of financing products and complying with our credit risk appetite. 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. To manage these risks effectively we have adopted the ISO 27001 accredited information security management system and business continuity planning.

The themes identified under the risk framework can be broadly classified as below:

- Economic environment
- Competitive environment
- Credit risk and impairment
- Regulatory change and adapting to change
- Information security

The Board directs investment and projects to mitigate risks according to our risk assessment, appetite and effectiveness of the mitigating action.

Asset Disposals

During the year, the group sold pools of instalment finance receivables to special purpose entities under two programmes, Securitisation Of Consumer Agreements (SOCA) and Securitisation Of Unsecured Loans DAC (SOUL DAC). The transaction resulted in full de-recognition of the financial assets from the Group's statement of Financial Position on the basis that Group have transferred substantially all of the risks and rewards and had surrendered control over the transferred assets. The group continues to act as a servicer of the transferred assets and it has provided subordinated debt to the special purpose entities. Detailed disclosure can be found within note 27.8 of the financial statements.

Final Salary Pension Scheme

A recently completed interim valuation of our final salary pension scheme and consultation with the trustees has concluded that the plan is currently in deficit on an accounting basis. The deficit calculated on the IAS19 basis at 31 March 2017 was £1.3m deficit (2016: £1.7m surplus). The change from surplus to deficit principally reflects an increase in liabilities of the scheme mainly due to a decrease in discount rates during the year, as well as continual accrual of service by active members.

Conclusion and Outlook

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 development of a customer centric view is driving greater customer partnerships, which will create far greater value for all parties than simple transactional relationships. We plan to develop a closer relationship with Mitsubishi UFJ over the forthcoming year, which should be mutually beneficial.

Group Strategic Report (continued)

Chief Executive Officer's Review (continued)

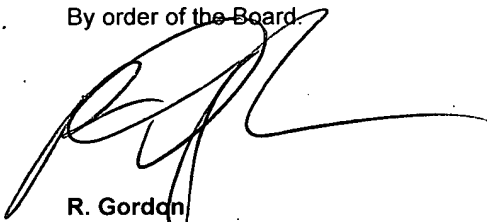
Conclusion and Outlook (continued)

Maintaining our risk appetite, margins and financial discipline will be challenging over the next 12 months, particularly if the economy weakens. The changes in our governance and risk framework should further strengthen our resolve to pursue our specialist approach to finance and sustainable profitable growth.

The names of the directors who served during the year are detailed in the Directors' Report. There have been significant changes to the Board over the past two years and we express our thanks for years of dedicated service, particularly our ex-chairman Nicholas Carter who retired in September 2016.

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

By order of the Board.

A large, stylized handwritten signature in black ink, appearing to be 'R. Gordon', is written over the text 'By order of the Board.' and extends to the right.

R. Gordon
Chief Executive Officer
15 June 2017

Corporate Governance Statement

The Board remains committed to high standards of corporate governance. Although the Company is not subject to the UK Corporate Governance Code ("the Code") published by the Financial Reporting Council, 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 current position of 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. The Company will continue to review and evolve its committee structure and reporting lines in 2017.

Board of Directors

During the year under review, the Board fulfilled its intention to strengthen the independence of the Board by appointing a new chairman (defined as the "Director in the Chair" under the Company's Articles of Association), Guy Munnoch, and a Senior Independent Director, Alan Hughes, in February 2017. Mr. Munnoch replaced Nicholas Carter (who retired in September 2016) and was considered by the Board to be independent upon appointment. Excluding the Director in the Chair, the Board therefore has two non-executive directors, Anne Whitaker and Mr. Hughes, who are determined by the Board to be independent.

The Board has an oversight role, delegating day to day responsibility for managing the Group's business to the Executive Committee (described below) and holding the Chief Executive Officer, Robert Gordon, to account.

Board Committees

The Board delegates certain defined responsibilities to committees which are summarised below.

Executive Committee

This committee is responsible for leading the day to day management of the Group. It 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, through the Chief Executive Officer, 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 is chaired by Anne Whitaker, who is a Chartered Accountant and a former audit partner at Ernst & Young. In the opinion of the Board, Ms. Whitaker is independent and has competence in both accounting and auditing as required by rule 7.1.1A of the Disclosure and Transparency Rules. The other members of the committee are Alan Hughes, Guy Munnoch and Hiroyuki Fukuro (a non-executive director). Although Mr. Munnoch is the Director in the Chair, taking into account the size of the Company, his experience in the regulated financial services sector and the fact that he was independent on appointment, the Board considers it to be appropriate that Mr. Munnoch is a member of the Audit and Risk Committee.

The Board ensures that the committee carries out the functions required by rule 7.1.3 of the Disclosure and Transparency Rules.

The committee, meets immediately before each Board meeting, including on key dates in the financial reporting and audit cycle, and otherwise as necessary. 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 at least once per year.

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.

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 schemes and commission schemes operated by the Group.

Corporate Governance Statement (continued)

Nomination Committee

The purpose of this committee is to review regularly the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes, as well as to ensure that there is a formal, rigorous and transparent procedure for the appointment of new directors.

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.

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 2017 and up to the date of approval by the Board of the annual report and financial statements.

The key elements of the internal control system include, a clearly defined board and board committee structure, with terms of reference setting out membership, roles and responsibilities. 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. Organisational structures are in place which allow clear delegation of authorities and responsibilities throughout the Group.

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.

In addition, there are regular reviews of key areas of risk by the internal audit teams of the Company, Hitachi Capital Corporation and Hitachi Limited respectively.

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 audit 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.

Throughout the year ended 31 March 2017, 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.

By order of the Board.



J.N.M.Sims
Company Secretary
15 June 2017

Directors' Report

The Board of Directors present their annual report and audited financial statements for the year ended 31 March 2017 for Hitachi Capital (UK) PLC (registered company number 1630491).

Results and Dividends

The results of the Group for the year ended 31 March 2017 are set out in the consolidated income statement on page 15. No interim dividend was paid during the year (2016: £nil). The directors do not recommend any final dividend for the year (2016: £nil) and therefore no dividends were paid for the year to 31 March 2017 (2016: £nil). Further details regarding the dividend are set out in note 20 to the financial statements.

Share capital

The Group's issue share capital together with the movement during the year is detailed in note 19 of the financial statements.

Change of ownership

On 3 October 2016, Hitachi Limited, the ultimate parent company, sold 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, Hitachi Limited continue to be the single largest shareholder of Hitachi Capital Corporation with 33.4% investment.

Outlook

The Group's future outlook is detailed in the Group Strategic Report on pages 6-7.

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. The CEO holds quarterly "town hall" meetings across the various sites, which are filmed and featured on the intranet for ease of access to the employee community. 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 Leadership and Personal Growth.

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, marriage or civil partnership, sexual orientation, disability, race, religion or belief, age, gender reassignment, or pregnancy and maternity. The Group's selection criteria and procedures will ensure that individuals are assessed on their skills, attributes, experience and potential, in order to enable all employees to have equal opportunity to progress within the Group. The Group's policy and practice is that neither disability nor any of the other nine protected characteristics will form the basis of employment decisions, and the Group will make reasonable adjustments to its standard working practice to overcome barriers to recruitment, training, career development and promotion caused by disability. This includes retraining 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 (resigned on 30 September 2016)
R. Gordon
H. Fukuro (appointed 1 April 2016)
A. Whitaker (appointed 1 April 2016)
Y. Ohashi (appointed 1 April 2016)
G. Munnoch (appointed 1 February 2017)
A. Hughes (appointed 1 February 2017)

Directors' Report (continued)

Directors (continued)

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 2017 AGM and, being eligible to be re-appointed, will offer themselves for re-appointment at that meeting.

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 2017 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 1. 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 15 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 Hitachi Capital Corporation 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 27 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 27 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 8 to 9 of this annual report.

By order of the Board.



J.N.M.Sims
Company Secretary
15 June 2017

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 2017 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 29. 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2017 and of the group's profit for the year then ended;
- ▶ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- ▶ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

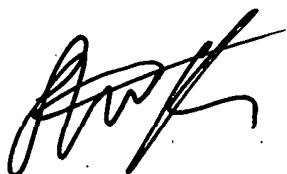
- ▶ based on the work undertaken in the course of the audit,
- ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

- ▶ adequate accounting records have not been kept 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
15 June 2017

Consolidated Income Statement

For the Year Ended 31 March 2017

	Note	Group 2017 £m	Group 2016 £m
Revenue	5	609.8	538.9
Finance costs		(49.6)	(47.5)
Depreciation and impairment of operating leased assets	10	(153.1)	(138.0)
Maintenance expense on operating leased vehicles		(29.4)	(28.4)
Other cost of sales	6	(131.9)	(101.6)
Cost of sales		(364.0)	(315.5)
Gross profit		245.8	223.4
Bad debts impairment charge	12	(18.1)	(16.2)
Administrative expenses	7	(119.4)	(111.4)
		(137.5)	(127.6)
Operating profit		108.3	95.8
Fair value gain on derivative financial instruments	13	0.4	0.3
Profit before tax		108.7	96.1
Income tax expense	8	(22.8)	(19.4)
Profit after tax		85.9	76.7

Consolidated Statement of Comprehensive Income

For the Year Ended 31 March 2017

	Note	Group 2017 £m	Group 2016 £m
Profit for the year		85.9	76.7
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent period:			
Gain on cash flow hedges taken to cash flow hedge reserve		3.9	0.7
Income tax effect	8	(0.7)	(0.3)
		3.2	0.4
Exchange difference on translation of foreign operations		(0.1)	0.4
		(0.1)	0.4
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		3.1	0.8
Other comprehensive income not to be reclassified to profit or loss in subsequent period:			
Re-measurement of defined benefit pension scheme	22	(7.2)	1.1
Income tax effect	8	1.4	(0.2)
		(5.8)	0.9
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		(5.8)	0.9
Other comprehensive income for the year, net of tax		(2.7)	1.7
Total comprehensive income for the year, net of tax		83.2	78.4
Attributable to:			
Equity holders of the parent		83.2	78.4
Total comprehensive income for the year, net of tax		83.2	78.4

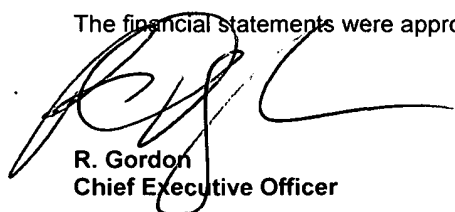
Statement of Financial Position – Consolidated and Company

As at 31 March 2017

	Note	Group 2017 £m	Group 2016 Restated £m	Group 1 April 2015 Restated £m	Company 2017 £m	Company 2016 £m
Assets:						
Non current assets:						
Intangible assets	11	17.0	16.1	17.4	16.7	7.0
Investment in subsidiaries	3	-	-	-	3.0	7.5
Property, plant and equipment	10	773.2	668.2	569.6	740.9	38.5
Loans and receivables	12	2,014.4	1,846.8	1,661.5	2,009.6	2,300.0
Derivative financial instruments	13	60.8	53.0	33.1	60.8	53.0
Deferred tax asset	9	8.8	0.6	-	8.2	5.1
Retirement benefit asset	22	-	1.7	0.6	-	1.7
		2,874.2	2,586.4	2,282.2	2,839.2	2,412.8
Current assets:						
Loans and receivables	12	1,367.4	1,248.0	1,059.5	1,363.0	1,241.8
Derivative financial instruments	13	100.2	50.6	8.3	100.2	50.6
Inventories	16	19.7	11.3	11.5	18.8	0.8
Trade and other assets	17	70.9	57.7	53.6	65.4	8.1
Cash	18	2.3	2.1	7.7	1.1	36.6
		1,560.5	1,369.7	1,140.6	1,548.5	1,337.9
Total assets		4,434.7	3,956.1	3,422.8	4,387.7	3,750.7
Equity and liabilities:						
Equity and reserves attributable to equity holders:						
Share capital	19	110.7	10.7	10.7	110.7	10.7
Share premium		15.6	15.6	15.6	15.6	15.6
Retained earnings		372.9	287.1	224.6	371.2	191.3
Other reserves	19	(16.9)	(14.3)	(16.0)	(17.0)	(14.3)
Total equity		482.3	299.1	234.9	480.5	203.3
Non current liabilities:						
Interest bearing loans and borrowings	14	2,213.2	1,938.3	1,681.6	2,197.0	1,923.8
Derivative financial instruments	13	9.3	30.4	84.9	9.3	30.4
Trade and other payables	23	94.7	93.2	81.7	94.7	53.6
Provisions	21	1.4	1.2	1.8	1.4	0.9
Deferred tax liability	9	-	-	1.9	-	-
Retirement benefit obligation	22	1.3	-	-	1.3	-
		2,319.9	2,063.1	1,851.9	2,303.7	2,008.7
Current liabilities:						
Bank overdrafts	18	3.5	4.7	11.2	3.5	2.6
Interest bearing loans and borrowings	14	1,419.5	1,404.2	1,092.1	1,390.3	1,389.9
Derivative financial instruments	13	13.4	17.1	69.3	13.4	17.1
Current tax liability		18.4	12.8	3.7	18.7	11.5
Provisions	21	18.4	23.5	23.0	18.4	22.6
Trade and other payables	23	159.3	131.6	136.7	159.2	95.0
		1,632.5	1,593.9	1,336.0	1,603.5	1,538.7
Total liabilities		3,952.4	3,657.0	3,187.9	3,907.2	3,547.4
Total equity and liabilities		4,434.7	3,956.1	3,422.8	4,387.7	3,750.7

The Company profit for the year was £179.9m (2016: £63.7m).

The financial statements were approved by the board, authorised for issue on 15 June 2017 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 2017

	Note	Share Capital £m	Share Premium Account £m	Retained Earnings £m	Other Reserves £m	Total £m
GROUP						
At 31 March 2015		10.7	15.6	224.6	(16.0)	234.9
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)
At 31 March 2016		10.7	15.6	287.1	(14.3)	299.1
Profit for the period		-	-	85.9	-	85.9
Other comprehensive income		-	-	(0.1)	(2.6)	(2.7)
Total comprehensive income		-	-	85.8	(2.6)	83.2
Issue of share capital	19	100.0	-	-	-	100.0
At 31 March 2017		110.7	15.6	372.9	(16.9)	482.3

	Note	Share Capital £m	Share Premium Account £m	Retained Earnings £m	Other Reserves £m	Total £m
COMPANY						
At 31 March 2015		10.7	15.6	141.8	(15.7)	152.4
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)
At 31 March 2016		10.7	15.6	191.3	(14.3)	203.3
Profit for the period		-	-	179.9	-	179.9
Other comprehensive income		-	-	-	(2.7)	(2.7)
Total comprehensive income		-	-	179.9	(2.7)	177.2
Issue of share capital	19	100.0	-	-	-	100.0
At 31 March 2017		110.7	15.6	371.2	(17.0)	480.5

During the year, the Company received dividend income of £96.2m from Hitachi Capital Vehicle Solutions Ltd, a company within the group.

Statement of Cash Flows – Consolidated and Company

For the Year Ended 31 March 2017

	Note	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Operating activities:					
Profit before tax		108.7	96.1	202.6	78.9
Non cash adjustment to reconcile profit before tax to net cash					
Depreciation and impairment of property, plant and equipment	10	156.1	141.2	151.6	11.7
Depreciation and impairment of intangible assets	11	4.3	1.7	4.3	1.4
Net (gain)/loss on disposal operating lease assets		(4.1)	(9.2)	0.4	(1.0)
Net (gain)/loss on disposal of property, plant and equipment		-	(0.3)	-	-
Net loss on disposal of intangible assets		-	-	-	0.2
Fair value gain on derivative financial instruments	13	(0.4)	(0.3)	(0.4)	(0.3)
Defined benefit pension scheme charge to income statement	22	0.5	0.7	0.5	0.7
Net (gain)/loss on foreign exchange	10	(1.5)	-	-	-
Impairment of investment in subsidiary	3	-	-	2.4	-
Dividend received from subsidiary		-	-	(96.2)	-
Working capital adjustments:					
Increase in receivables		(300.6)	(377.6)	(286.8)	(427.8)
Increase in payables & provisions		24.3	6.3	(26.4)	6.0
Decrease/(increase) in inventories		(8.4)	0.2	(8.3)	(0.6)
Cash contributions to defined benefit pension scheme	22	(4.7)	(0.7)	(4.7)	(0.7)
Purchase of operating leased assets	10	(375.9)	(318.3)	(359.2)	(5.0)
Proceeds from sale of operating leased assets	5	124.0	91.0	118.0	1.9
Income tax paid		(24.7)	(13.5)	(24.1)	1.4
Net cash flows used in operating activities		(302.4)	(382.7)	(326.3)	(333.2)
Investing activities:					
Purchase of property, plant and equipment (non operating leases)	10	(4.0)	(3.0)	(1.6)	(1.7)
Capitalised software purchase & development costs	11	(5.2)	(0.7)	(5.2)	(0.6)
Proceeds from sale of property, plant and equipment (non operating leases)		0.6	0.2	-	-
Repayment of capital contribution from Hitachi Capital Insurance Europe Limited	3	-	-	0.9	5.0
Net cash flows used in investing activities		(8.6)	(3.5)	(5.9)	2.7
Financing activities:					
Dividends paid to shareholders	20	-	(14.2)	-	(14.2)
Share Capital issued		100.0	-	100.0	-
Funding received		885.5	938.6	868.9	923.8
Funding paid		(673.1)	(537.7)	(673.1)	(537.7)
Net cash flows from financing activities		312.4	386.7	295.8	371.9
Net (decrease)/increase in cash and bank overdrafts		1.4	0.5	(36.4)	41.4
Net foreign exchange difference		-	0.4	-	-
Cash and bank overdrafts at beginning of year		(2.6)	(3.5)	34.0	(7.4)
Cash and bank overdrafts at end of year	18	(1.2)	(2.6)	(2.4)	34.0
Current assets - cash	18	2.3	2.1	1.1	36.6
Current liabilities - bank overdrafts	18	(3.5)	(4.7)	(3.5)	(2.6)
Cash and bank overdrafts at end of year	18	(1.2)	(2.6)	(2.4)	34.0

1. Corporate Information

The consolidated financial statements of the Group for the year ended 31 March 2017 were authorised for issue by the directors on 15 June 2017. 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.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at 31 March 2015 is presented in these consolidated financial statements due to a retrospective correction of a re-classification error (see Note 23).

2.2 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2017. 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. 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 the income statement.

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.

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 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.

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) 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.

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.

2.3 Summary of Significant Accounting Policies (continued)

(f) 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 leased assets is calculated over the term of the lease on a straight line basis.

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.

(g) Investment in subsidiaries

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

(h) 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 (between 2 to 10 years) 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.

2.3 Summary of Significant Accounting Policies (continued)

(h) Intangible Assets (continued)

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.

(i) 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 non-derivative financial assets are recognised initially at fair value plus directly attributable transaction costs. Derivative financial assets are 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.

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.

2.3 Summary of Significant Accounting Policies (continued)

(i) Financial Assets (continued)

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.

(j) 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 directly attributable transaction costs in the case of loans and borrowings.

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.

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.

(k) 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.

2.3 Summary of Significant Accounting Policies (continued)

(l) 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 18.

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.

(m) 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.

(n) 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.

2.3 Summary of Significant Accounting Policies (continued)

(o) 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.

(p) 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 control of 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 control of 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.

(q) 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 four years; for longer periods, a long term growth rate is calculated and applied to project future cash flows after the fourth year. Impairment losses are recognised in the income statement.

(r) 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.

2.3 Summary of Significant Accounting Policies (continued)

(s) 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.

(t) 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.

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

Annual Improvement 2012-2014 cycle

- Amendment to IFRS 5 'Non-current assets held-for-sale and discontinued operations' adding specific guidance for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued. This amendment has no impact on the Group.
- IFRS 7 'Financial instruments: disclosures' clarifying whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements. This amendment has no material impact on the Group.
- IAS 19 'Employee benefits' clarifying that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. This amendment has no impact on the Group as this is already applied.
IAS 34 'Interim financial reporting' clarifying of 'elsewhere in the interim report' and requiring a cross reference. This amendment does not have 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.

While areas such as the amortised cost basis of valuation and the effective interest rate method of recognition are largely unchanged in the new standard, the new basis of accounting for impairments is likely to have a significant impact on the Group due to the requirement for earlier recognition of losses.

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, loan receivables, certain loan commitments and financial guarantee contracts. At initial recognition, an allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12 month ECL). In the event of a significant increase in the credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL is recognised are considered to be Stage 1; financial assets, which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets, which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in Stage 3.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering the increase in ECL. During 2016/17 and continuing into 2017/18, there has been a particular focus on the Group's preparedness for IFRS 9 which aims to ensure that the Group has the necessary systems and processes in place ahead of the effective date. Progress has been made on developing the Expected Credit Loss models and the Group is expected to complete testing and implementation of the models by March 2018.

2.4 Changes to Standards and Interpretations (continued)

Until such time as the Expected Credit Loss models and forward looking economic scenarios, have been tested, the Group does not plan to quantify the extent of the impacts of IFRS 9.

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. The Group is evaluating the impact on a continuing basis but it is unlikely to have a material impact on the Group. The Group intends to adopt the standard on the date it becomes effective.

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 periods beginning on or after 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 periods beginning on or after 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. This standard does not have material impact on the Group as a lessor but during 2017/18, the Group will be assessing the impact as a lessee. The Group intends to adopt the standard from 1 April 2019.

IAS 7 Statement of Cash Flows - Amendments

The amendments were issued in January 2016 and clarifying that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is effective for periods beginning on or after 1 January 2017. The Group will disclose any material changes in liabilities arising from financing activities in its 2018 statement of cash flows.

IFRS 2 Share-based Payment - Amendments

These amendments were issued June 2016 and clarifying the standard in relation to the accounting for cash-settled share based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. This amendment is effective for periods beginning on or after 1 January 2018. There are no share based payments managed by the Group and therefore this amendment will have no impact on the Group.

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.

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.

2.5 Significant Accounting Judgements, Estimates and Assumptions (continued)

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(q) above.

Residual values for operating leased assets

Discussed in note 2.3(f) 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.

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(n). Further details are included in note 21.

3. Investment in Subsidiaries (Company)

	Hitachi Capital Vehicle Solutions Ltd	Hitachi Capital Polska sp zoo	Hitachi Capital Insurance Europe Ltd	Total
	£m	£m	£m	£m
Group				
At 31 March 2015	2.9	3.7	5.9	12.5
Repayment of capital contribution	-	-	(5.0)	(5.0)
At 31 March 2016	2.9	3.7	0.9	7.5
Repayment of capital contribution	(1.2)	-	(0.9)	(2.1)
Impairment loss	-	(2.4)	-	(2.4)
At 31 March 2017	1.7	1.3	-	3.0

At 31 March 2017, the management determined that due to unfavourable market conditions, the carrying amount of investment in Hitachi Capital Polska sp zoo was higher than its value in use, calculated based on discounted future projected cash flows. As a result, the investment was partially impaired and a charge of £2.4m has been recognised in the Company's income statement.

	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	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. The registered addresses can be found within company information at the end of this report.

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:

Business segment	Principal activities
Consumer Finance (HCCF)	Retail point of sale and personal finance
Vehicle Solutions (HCVS) and Hitachi Capital Polska sp zoo (HCPL)	Vehicle management solutions and fleet management services
Business Finance (HCBF)	Medium term asset finance and Hitachi captive business
Invoice Finance (HCIF)	Factoring, invoice discounting and accounts payable financing
Insurance Europe (HCIE)	Run off a historic insurance portfolio
Corporate	Head office including hedging activities.

No revenues earned from transactions with a single external customer (including Group's under common control) amount to 10% or more of the Group's revenues in either the 2017 or 2016 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.

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4. Operating Segment Information (continued)

Year ended 31 March 2017	HCCF £m	HCVS and HCPL £m	HCBF £m	HCIF £m	HCIE £m	Corporate £m	Group £m
Revenue							
Interest income	83.2	-	-	10.0	-	-	93.2
Other external income	71.0	380.6	65.0	-	-	-	516.6
Total revenue	154.2	380.6	65.0	10.0	-	-	609.8
Other allocations							
Finance costs	(25.3)	(10.6)	(13.2)	(0.5)	-	-	(49.6)
Depreciation & impairment of operating lease assets	-	(145.0)	(8.1)	-	-	-	(153.1)
Bad debt impairment	(16.9)	(0.4)	(1.2)	-	-	-	(18.5)
Other	(49.8)	(198.0)	(22.1)	(10.0)	-	-	(279.9)
Profit/(loss) before tax	62.2	26.6	20.4	(0.5)	-	-	108.7
Income tax	(12.7)	(6.1)	(4.1)	0.1	-	-	(22.8)
Profit/(loss) after tax	49.5	20.5	16.3	(0.4)	-	-	85.9
Assets	2,306.4	872.3	965.1	122.0	-	168.9	4,434.7
Liabilities	2,025.7	847.8	911.7	112.5	-	54.7	3,952.4
Other disclosures:							
Capital expenditure	0.1	372.2	6.2	0.5	-	6.1	385.1
Equity and Reserves	-	24.5	-	-	-	457.8	482.3

Year ended 31 March 2016	HCCF £m	HCVS and HCPL £m	HCBF £m	HCIF £m	HCIE £m	Corporate £m	Group £m
Revenue							
Interest income	86.9	-	-	11.9	-	-	98.8
Other external income	62.8	317.3	60.8	(0.8)	-	-	440.1
Total revenue	149.7	317.3	60.8	11.1	-	-	538.9
Other allocations							
Finance costs	(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)
Profit before tax	56.1	20.8	17.5	1.7	-	-	96.1
Income tax	(11.6)	(3.9)	(3.6)	(0.3)	-	-	(19.4)
Profit after tax	44.5	16.9	13.9	1.4	-	-	76.7
Assets	2,128.5	714.9	857.3	110.3	1.3	143.8	3,956.1
Liabilities	1,896.0	613.3	819.7	100.3	0.2	227.5	3,657.0
Other disclosures:							
Capital expenditure	0.2	314.6	5.0	-	-	2.1	321.9
Equity and Reserves	-	101.6	-	-	1.1	196.4	299.1

5. Revenue

	2017	2016
	£m	£m
Interest income	93.2	98.1
Finance lease income	51.1	48.4
Operating lease rental income	239.7	218.6
Sale of operating leased assets	124.0	91.0
Fee income related to the activities above	98.2	82.8
Other income	3.6	-
Total revenue	609.8	538.9

During the year the Group received a one-off £3.6m from HMRC relating to a VAT claim in respect to prior years Hitachi Capital Vehicle Solutions business trading.

6. Other Cost of Sales

	Note	2017	2016
		£m	£m
Commission expense		2.5	1.4
Customer claim charges and provisions	21	(0.5)	7.1
Operating lease assets net book value		126.4	92.2
Other expenses		3.5	0.9
Total other cost of sales		131.9	101.6

7. Administrative Expenses and Auditor's Remuneration

	2017	2016
	£m	£m
Staff	67.3	64.8
Premises and office	9.2	8.1
IT and telephony	14.0	12.9
Marketing	11.0	10.0
Professional services and other	13.9	14.6
Impairment of goodwill	3.0	-
Auditor's remuneration		
Audit of financial statements	0.9	0.7
Other assurance services	0.1	0.3
Total administration expenses	119.4	111.4

The number of full time equivalent employees at 31 March 2017 was 1,214 (2016: 1,138), which included permanent and temporary staff as well as those on fixed term contracts. Of this, HCUK Company had 1,168 (2016: 734) and Hitachi Capital Polska sp zoo had 46 (2016: 41).

The Group employed an average of 1,176 (2016: 1,094) employees during the year. Of this, HCUK Company had 1,132 (2016: 688) and Hitachi Capital Polska sp zoo had 44 (2016: 37).

In 2017, HCUK Company includes the transfer of 363 employees from Hitachi Capital Vehicle Solutions Limited, a company within the Group, as part of the acquisition on 1 April 2016 (see note 29).

In line with the Group's accounting policy for the impairment of goodwill (note 2.3(i)), an annual assessment found the goodwill in the Vehicle Solutions division to be impaired by £3.0m. This cost was included in administration expenses.

8. Income Tax

	2017	2016
	£m	£m
Current income tax		
Charge for the year	28.3	22.5
Adjustment in respect of prior years	2.0	(0.1)
Total	30.3	22.4
Deferred tax		
Origination and reversal of temporary differences in the current year	(5.5)	(3.0)
Adjustment in respect of prior years	(2.0)	-
Total	(7.5)	(3.0)
Tax charge on profit	22.8	19.4

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 CO₂ 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 2017, there were net prior year adjustments of £nil (2016: £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	2017	2016
		£m	£m
Revaluation of defined benefit pension scheme		(1.4)	0.2
Revaluation of cash flow hedges		0.7	0.3
Total tax (credited)/charged on items taken directly to equity	9	(0.7)	0.5

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

	2017	2016
	£m	£m
Profit before tax	108.7	96.1
Tax on profit at UK corporation tax rate of 20% (2016: 20%)	21.7	19.2
Increase/(decrease) resulting from:		
Adjustments in respect of prior years	-	(0.1)
Disallowable expenses and other adjustments	0.8	0.4
Impact of rate change on net deferred tax liabilities	0.3	(0.1)
Tax charge	22.8	19.4

The UK rate of corporation tax reduced from 20% to 19% from 1 April 2017. Future rates which have also been enacted are: a reduction to 17% from 1 April 2020. Deferred tax has been provided at 19% at 31 March 2017. This increased the tax charge in 2017 through the income statement of £0.3m (2016: £0.3m decrease).

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 £m	Retirement benefit obligations £m	Derivative financial instruments £m	Other £m	Total £m
Group					
At 31 March 2015	(5.8)	0.1	3.3	0.5	(1.9)
Credit to income statement	3.0	-	-	-	3.0
Charge to equity	-	(0.2)	(0.3)	-	(0.5)
At 31 March 2016	(2.8)	(0.1)	3.0	0.5	0.6
Credit / (charge) to income statement	7.7	(0.5)	-	0.3	7.5
Credit / (charge) to equity	-	1.4	(0.7)	-	0.7
At 31 March 2017	4.9	0.8	2.3	0.8	8.8
Company					
At 31 March 2015	0.6	0.1	3.3	0.4	4.4
Credit to income statement	1.2	-	-	-	1.2
Charge to equity	-	(0.2)	(0.3)	-	(0.5)
At 31 March 2016	1.8	(0.1)	3.0	0.4	5.1
Transfer of business from subsidiary (note 29)	(4.6)	-	-	-	(4.6)
Credit / (charge) to income statement	7.3	(0.5)	-	0.3	7.1
Credit / (charge) to equity	-	1.4	(0.8)	-	0.6
At 31 March 2017	4.5	0.8	2.2	0.7	8.2

10. Property, Plant and Equipment

	Freehold property	Motor vehicles	Fixtures, fittings, computers and leasehold improvements	Operating leased assets	Total
	£m	£m	£m	£m	£m
Group					
Cost					
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
At 31 March 2016	6.2	1.9	14.9	988.3	1,011.3
Additions	0.1	2.3	1.6	375.9	379.9
Disposals	-	(1.1)	-	(271.6)	(272.7)
Exchange rate differences	-	0.1	(0.1)	1.9	1.9
At 31 March 2017	6.3	3.2	16.4	1,094.5	1,120.4
Accumulated depreciation and impairment					
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)
At 31 March 2016	0.4	0.5	9.0	333.2	343.1
Charge for the year	0.1	0.4	2.5	152.8	155.8
Impairment loss	-	-	-	0.3	0.3
Disposals	-	(0.5)	-	(151.9)	(152.4)
Exchange rate differences	-	-	-	0.4	0.4
At 31 March 2017	0.5	0.4	11.5	334.8	347.2
Carrying amount					
At 31 March 2016	5.8	1.4	5.9	655.1	668.2
At 31 March 2017	5.8	2.8	4.9	759.7	773.2

At 31 March 2017, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £52.0m (2016: £92.0m), 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 similar commitments amounting to £52.0m (2016: £nil).

10. Property, Plant and Equipment (continued)

Depreciation expense for the Group of £152.8m (2016: £139.0m) relating to operating leased assets was included in cost of sales. A further impairment loss of £0.3m (2016: release of £1.0m) relating to operating leased assets was also included in cost of sales. Depreciation expense relating to the remainder of the Group's property, plant and equipment of £3.0m (2016: £3.2m) 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 4.08% (2016: 6.93%).

	Freehold property	Fixtures, fittings, computers and leasehold improvements £m	Operating leased assets £m	Total £m
Company				
Cost				
At 31 March 2015	-	10.4	62.4	72.8
Additions	-	1.7	5.0	6.7
Disposals	-	-	(7.0)	(7.0)
At 31 March 2016		12.1	60.4	72.5
Transfer of business from subsidiary (note 29)	5.9	2.5	908.2	916.6
Additions	-	1.6	359.2	360.8
Disposals	-	-	(268.8)	(268.8)
At 31 March 2017	5.9	16.2	1,059.0	1,081.1
Accumulated depreciation and impairment				
At 31 March 2015	-	4.6	23.9	28.5
Charge for the year	-	2.2	9.5	11.7
Eliminated on disposals	-	-	(6.2)	(6.2)
At 31 March 2016		6.8	27.2	34.0
Transfer of business from subsidiary (note 29)	0.2	2.1	303.0	305.3
Charge for the year	-	2.5	148.8	151.3
Impairment loss	-	-	0.3	0.3
Eliminated on disposals	-	-	(150.7)	(150.7)
At 31 March 2017	0.2	11.4	328.6	340.2
Carrying amount				
At 31 March 2016	-	5.3	33.2	38.5
At 31 March 2017	5.7	4.8	730.4	740.9

11. Intangible assets

	Capitalised software £m	Intangibles £m	Goodwill £m	Total £m
Group				
Cost				
At 31 March 2015	13.8	1.0	13.9	28.7
Additions	0.7	-	-	0.7
Disposals	(0.3)	-	-	(0.3)
At 31 March 2016	14.2	1.0	13.9	29.1
Additions	5.2	-	-	5.2
Disposals	-	-	-	-
At 31 March 2017	19.4	1.0	13.9	34.3
Accumulated amortisation and impairment				
At 31 March 2015	10.6	0.7	-	11.3
Charge for the year	1.4	0.3	-	1.7
At 31 March 2016	12.0	1.0	-	13.0
Charge for the year	1.3	-	-	1.3
Impairment loss	-	-	3.0	3.0
At 31 March 2017	13.3	1.0	3.0	17.3
Carrying amount				
At 31 March 2016	2.3	-	13.9	16.2
At 31 March 2017	6.1	-	10.9	17.0
Company				
Cost				
At 31 March 2015	9.7	-	4.9	14.6
Additions	0.6	-	-	0.6
Disposals	(0.2)	-	-	(0.2)
At 31 March 2016	10.1	-	4.9	15.0
Transfer of business from subsidiary (note 29)	4.0	-	8.8	12.8
Additions	5.2	-	-	5.2
At 31 March 2017	19.3	-	13.7	33.0
Accumulated amortisation and impairment				
At 31 March 2015	6.6	-	-	6.6
Charge for the year	1.4	-	-	1.4
At 31 March 2016	8.0	-	-	8.0
Transfer of business from subsidiary (note 29)	4.0	-	-	4.0
Charge for the year	1.3	-	-	1.3
Impairment Loss	-	-	3.0	3.0
At 31 March 2017	13.3	-	3.0	16.3
Carrying amount				
At 31 March 2016	2.1	-	4.9	7.0
At 31 March 2017	6.0	-	10.7	16.7

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

At 31 March 2017, neither the Group nor the Company had any contractual commitments for the acquisition of intangible assets (2016: none).

11. Intangible assets (continued)

Goodwill acquired through business combinations has been allocated to individual cash-generating units, which are also reportable business segments, for impairment testing, as follows:

	2017	2016
Carrying amount of goodwill by business segment	£m	£m
Invoice Finance	4.9	4.9
Driving Instructor Solutions	4.1	7.1
Commercial Vehicle Solutions	1.7	1.7
Hitachi Capital Polska sp zoo	0.2	0.2
Total	10.9	13.9

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 of 14.9% (2016: 14.9%) were applied to cash flow projections and cash flows beyond the four year period were extrapolated using a 2.7% growth rate (2016: 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.

At 31 March 2017, the management determined that due to unfavourable market conditions, the carrying amount of Driving Instructor Solutions was higher than its value in use, calculated based on discounted future projected cash flows. As a result, the carrying value of goodwill was partially impaired and a charge of £3.0m has been recognised in the income statement.

12. Loans and Receivables

Movements in the allowance for impairment losses	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
At 1 April	16.3	13.0	16.3	13.0
Amounts written off	(13.7)	(16.7)	(13.7)	(16.7)
Recoveries	2.1	3.8	2.1	3.8
Charge to the income statement	18.1	16.2	18.1	16.2
Total at 31 March	22.8	16.3	22.8	16.3
Loans and receivables, gross of impairment	3,404.5	3,111.0	3,395.4	3,558.1
Loans and receivables, net of impairment	3,381.8	3,094.8	3,372.6	3,541.8

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

	Group 2017 £'000	%	Group 2016 £'000	%	Company 2017 £'000	%	Company 2016 £'000	%
Finance lease receivables	133.0	5.5	117.7	6.0	119.0	6.1	97.8	6.0
Hire Purchase agreements	827.4	5.4	722.7	5.7	827.4	5.4	722.7	5.7
Instalment finance agreements	2,272.2	7.8	2,124.4	8.2	2,272.2	7.8	2,124.4	8.2
Other loans and advances	149.2	-	130.0	0.0	154.0	2.3	596.9	1.8
Total	3,381.8	6.8	3,094.8	7.2	3,372.6	6.8	3,541.8	6.5

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
Finance lease receivables at 31 March 2017					
Finance leases – gross	49.8	70.6	23.9	1.3	145.6
Deferred Revenue	(5.7)	(5.2)	(0.8)	-	(11.7)
Impairment	(0.3)	(0.5)	(0.1)	-	(0.9)
Total	43.8	64.9	23.0	1.3	133.0
Finance lease receivables at 31 March 2016					
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)
Total	38.6	57.1	21.0	1.0	117.7
Hire Purchase agreements at 31 March 2017					
Hire Purchase agreements – gross	333.5	427.5	136.1	6.9	904.0
Deferred Revenue	(36.2)	(30.9)	(4.5)	(0.4)	(72.0)
Impairment	(1.7)	(2.2)	(0.7)	-	(4.6)
Total	295.6	394.4	130.9	6.5	827.4
Hire Purchase agreements at 31 March 2016					
Hire Purchase 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)
Total	265.4	347.5	105.0	4.8	722.7
Instalment Finance at 31 March 2017					
Instalment Finance – gross	1,043.2	1,118.6	360.6	105.1	2,627.5
Deferred Revenue	(142.0)	(132.0)	(41.3)	(23.3)	(338.6)
Impairment	(6.6)	(7.2)	(2.3)	(0.6)	(16.7)
Total	894.6	979.4	317.0	81.2	2,272.2
Instalment Finance at 31 March 2016					
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)
Total	814.0	940.4	286.4	83.6	2,124.4
Other Loans and Advances 31 March 2017					
Other Loans – gross	134.1	12.4	3.2	0.2	149.9
Deferred Revenue	(0.1)	-	-	-	(0.1)
Impairment	(0.6)	-	-	-	(0.6)
Total	133.4	12.4	3.2	0.2	149.2
Other Loans and Advances at 31 March 2016					
Other Loans – gross	130.6	-	-	-	130.6
Deferred Revenue	0.1	-	-	-	0.1
Impairment	(0.7)	-	-	-	(0.7)
Total	130.0	-	-	-	130.0
Total at 31 March 2017 (Loans and receivables, net of impairment)	1,367.4	1,451.1	474.1	89.2	3,381.8
Total at 31 March 2016 (Loans and receivables, net of impairment)	1,248.0	1,345.0	412.4	89.4	3,094.8

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12. Loans and Receivables (continued)

Company	<1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Finance lease receivables at 31 March 2017					
Finance leases – gross	45.5	63.2	21.7	1.2	131.6
Deferred Revenue	(5.7)	(5.2)	(0.8)	-	(11.7)
Impairment	(0.3)	(0.5)	(0.1)	-	(0.9)
Total	39.5	57.5	20.8	1.2	119.0
Finance lease receivables at 31 March 2016					
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)
Total	32.4	47.7	16.7	1.0	97.8
Hire Purchase agreements at 31 March 2017					
Hire Purchase agreements – gross	333.5	427.5	136.1	6.9	904.0
Deferred Revenue	(36.2)	(30.9)	(4.5)	(0.4)	(72.0)
Impairment	(1.8)	(2.1)	(0.7)	-	(4.6)
Total	295.5	394.5	130.9	6.5	827.4
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Deferred Revenue	(154.7)	(142.8)	(42.1)	(22.1)	(361.7)
Impairment	(4.0)	(4.5)	(1.4)	(0.4)	(10.3)
Total	813.8	940.6	286.4	83.6	2,124.4
Other Loans and Advances 31 March 2017					
Other Loans – gross	134.1	12.3	3.2	0.2	149.8
Deferred Revenue	(0.1)	-	-	-	(0.1)
Impairment	(0.6)	-	-	-	(0.6)
Loan Receivable from subsidiaries	-	-	-	4.9	4.9
Total	133.4	12.3	3.2	5.1	154.0
Other Loans and Advances at 31 March 2016					
Other Loans – gross	130.7	-	-	-	130.7
Deferred Revenue	-	-	-	-	-
Impairment	(0.7)	-	-	-	(0.7)
Loan Receivable from subsidiaries	-	-	-	466.9	466.9
Total	130.0	-	-	466.9	596.9
Total at 31 March 2017 (Loans and receivables, net of impairment)	1,363.0	1,443.7	471.9	94.0	3,372.6
Total at 31 March 2016 (Loans and receivables, net of impairment)	1,241.8	1,335.6	408.1	556.3	3,541.8

12. Loans and Receivables (continued)

In the above in Other Loans and Advances, the Company has a loan receivable of £4.9m (2016: £466.9m) 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 £6.0m (2016: £5.4m). There are none for the Company in either of the years stated.

Refer to note 27.7 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 £48.1m (2016: £54.9m) 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:

2017	Cross currency swap contracts					Interest rate swap		Total £m
	USD £m	HKD £m	Yen £m	NZD £m	Other £m	Total £m	Total £m	
Assets								
Less than 1 year	63.4	15.5	16.7	3.0	1.6	100.2	-	100.2
1 to 2 years	11.9	12.8	3.5	-	2.5	30.7	-	30.7
2 to 5 years	16.2	-	8.0	-	4.7	28.9	-	28.9
Over 5 years	-	-	-	-	1.0	1.0	0.2	1.2
Total	91.5	28.3	28.2	3.0	9.8	160.8	0.2	161.0
Liabilities								
Less than 1 year	-	-	(9.9)	-	(1.9)	(11.8)	(1.5)	(13.3)
1 to 2 years	-	-	-	-	(1.5)	(1.5)	(3.2)	(4.7)
2 to 5 years	-	-	-	-	-	-	(4.7)	(4.7)
Over 5 years	-	-	-	-	-	-	-	-
Total	-	-	(9.9)	-	(3.4)	(13.3)	(9.4)	(22.7)
TOTAL	91.5	28.3	18.3	3.0	6.4	147.5	(9.2)	138.3
Of which,								
Designated as fair value hedges						(0.8)	(0.7)	(1.5)
Designated as cash flow hedges						148.3	(8.5)	139.8

2016	Cross currency swap contracts					Interest rate swap		Total £m
	USD £m	HKD £m	Yen £m	NZD £m	Other £m	Total £m	Total £m	
Assets								
Less than 1 year	10.1	-	31.2	-	9.3	50.6	-	50.6
1 to 2 years	25.4	6.2	4.1	1.0	0.7	37.4	-	37.4
2 to 5 years	8.7	3.9	2.3	-	0.3	15.2	-	15.2
Over 5 years	0.4	-	-	-	-	0.4	-	0.4
Total	44.6	10.1	37.6	1.0	10.3	103.6	-	103.6
Liabilities								
Less than 1 year	-	-	(15.7)	(0.5)	(0.2)	(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)
Total	-	-	(35.2)	(0.5)	(1.2)	(36.9)	(10.6)	(47.5)
TOTAL	44.6	10.1	2.4	0.5	18.2	66.7	(10.6)	56.1
Of which,								
Designated as fair value hedges						3.0	-	3.0
Designated as cash flow hedges						63.7	(10.6)	53.1

13. Derivative Financial Instruments (continued)

The hedged cash flows are expected to occur and affect Other Comprehensive Income in the periods up to July 2026 (2016: September 2021) for cross currency swaps and to September 2021 (2016: 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 27.3.

Fair value gain on derivative financial instruments:	2017 £m	2016 £m
(Loss)/gain on fair value hedging instruments	(4.4)	23.5
Gain/(loss) on the hedged item attributable to the hedged risk in FV hedges	4.8	(23.2)
Total gain recognised in the income statement	0.4	0.3

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			
	2017 £m	2017 %	2016 £m	2016 %	2017 £m	2017 %	2016 £m	2016 %
Bank and group borrowings	1,645.7	1.22	1,392.0	1.31	1,600.3	1.22	1,363.2	1.31
Commercial paper	242.1	0.69	226.2	0.85	242.1	0.69	226.2	0.85
Funding from securitised receivables	300.0	0.93	291.3	1.06	300.0	0.93	291.3	1.06
Medium term notes	1,444.9	1.38	1,433.0	1.42	1,444.9	1.38	1,433.0	1.42
Total	3,632.7	1.46	3,342.5	1.32	3,587.3	1.46	3,313.7	1.32

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 1.25% (2016: 1.50%) and is based on the Bank of England's official rate 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 27.7). 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.

14. Interest Bearing Borrowings (continued)

The borrowings are repayable as follows:

Group	Fixed 2017 £m	Floating 2017 £m	Total 2017 £m	Fixed 2016 £m	Floating 2016 £m	Total 2016 £m
Current liabilities						
On demand or within 1 year	771.1	648.4	1,419.5	978.2	426.0	1,404.2
Non current liabilities						
More than 1 year but less than 2	314.1	674.1	988.2	270.0	484.4	754.4
More than 2 years but less than 7	708.3	516.7	1,225.0	412.0	771.9	1,183.9
Total	1,022.4	1,190.8	2,213.2	682.0	1,256.3	1,938.3
Total	1,793.5	1,839.2	3,632.7	1,660.2	1,682.3	3,342.5

There were no defaults of either principal or interest and no unremediated breaches of loan agreement terms that would permit the lender to demand accelerated payment on any loans payable during the reporting periods ending March 2017 or 2016.

Company	Fixed 2017 £m	Floating 2017 £m	Total 2017 £m	Fixed 2016 £m	Floating 2016 £m	Total 2016 £m
Current liabilities						
On demand or within 1 year	742.0	648.3	1,390.3	963.9	426.0	1,389.9
Non current liabilities						
More than 1 year but less than 2	297.9	674.1	972.0	255.5	484.4	739.9
More than 2 years but less than 7	708.3	516.7	1,225.0	412.0	771.9	1,183.9
Total	1,006.2	1,190.8	2,197.0	667.5	1,256.3	1,923.8
Total	1,748.2	1,839.1	3,587.3	1,631.4	1,682.3	3,313.7

An analysis of borrowings by currency is as follows:

Group	Sterling £m	Euro £m	Yen £m	US Dollar £m	PLN Zloty £m	Other £m	Total £m
31 March 2016	1,634.5	210.5	771.6	534.2	29.6	162.1	3,342.5
31 March 2017	2,035.8	507.3	287.1	472.3	46.0	284.2	3,632.7

Company	Sterling £m	Euro £m	Yen £m	US Dollar £m	PLN Zloty £m	Other £m	Total £m
31 March 2016	1,634.5	210.5	771.6	534.2	0.8	162.1	3,313.7
31 March 2017	2,035.8	507.3	287.1	472.3	0.6	284.2	3,587.3

15. Fair Value of Financial Assets and Financial Liabilities

The table below summarises fair value of the Group's financial assets and financial liabilities in accordance with the hierarchy, numbered in the table.

	Note	Carrying amount		Fair value		Fair Value Hierarchy
		2017 £m	2016 £m	2017 £m	2016 £m	
Group:						
Financial assets measured at fair value:						
Derivative financial instruments	13	161.0	103.6	161.0	103.6	2
Financial assets not measured at fair value:						
Cash and cash equivalents	18	2.3	2.1	2.3	2.1	1
Trade debtors		43.7	44.0	43.7	44.0	3
Loans and receivables	12	3,381.8	3,094.8	3,416.0	3,104.3	3
Total financial assets		3,588.8	3,244.5	3,623.0	3,254.0	
Financial liabilities measured at fair value:						
Derivative financial instruments	13	22.7	47.5	22.7	47.5	2
Financial liabilities not measured at fair value:						
Bank overdraft	18	3.5	4.7	3.5	4.7	1
Trade creditors and accruals, including balances due to invoice financing clients		133.6	111.6	133.6	111.6	3
Interest bearing borrowings	14	3,632.7	3,342.5	3,658.8	3,406.2	3
Total financial liabilities		3,792.5	3,506.3	3,818.6	3,570.0	
Company:						
Financial assets measured at fair value:						
Derivative financial instruments	13	161.0	103.6	161.0	103.6	2
Financial assets not measured at fair value:						
Cash and cash equivalents	18	1.1	36.6	1.1	36.6	1
Trade debtors		41.5	0.1	41.5	0.1	3
Loans and receivables	12	3,372.6	3,541.8	3,406.8	3,551.3	3
Total financial assets		3,576.2	3,682.1	3,610.4	3,691.6	
Financial liabilities measured at fair value:						
Derivative financial instruments	13	22.7	47.5	22.7	47.5	2
Financial liabilities not measured at fair value:						
Bank overdraft	18	3.5	2.6	3.5	2.6	1
Trade creditors and accruals, including balances due to invoice financing clients		132.0	87.5	132.0	87.5	3
Interest bearing borrowings	14	3,587.3	3,313.7	3,613.4	3,406.2	3
Total financial liabilities		3,745.5	3,451.3	3,771.6	3,543.8	

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:
 - a) 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.
 - b) 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.

There were no transfers between levels 1, 2 and 3 during the year. There were also no changes in valuation techniques during the year.

16. Inventories

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Motor vehicles for resale	14.0	7.5	13.1	0.8
Vehicles not yet in leasing agreement	5.7	3.8	5.7	-
Total	19.7	11.3	18.8	0.8

17. Trade Receivables and Other Assets

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Trade debtors and prepayments	58.5	54.8	54.5	3.8
Other debtors	12.4	3.0	10.9	4.3
Total	70.9	57.8	65.4	8.1

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 2017, the trade debtor impairment provision was as follows:—

	Group £m	Company £m
At 31 March 2015	0.6	-
Net (decrease) for the year	(0.2)	-
At 31 March 2016	0.4	-
Transfer of business from subsidiary (note 29)	-	0.4
Net (decrease) for the year	-	-
At 31 March 2017	0.4	0.4

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 2017:

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash	2.3	2.1	1.1	36.6
Bank overdrafts	(3.5)	(4.7)	(3.5)	(2.6)
Cash and cash equivalents	(1.2)	(2.6)	(2.4)	34.0

In accordance with the security arrangements of liabilities as disclosed in note 14 to the financial statements, a net bank overdraft of £3.5m (2016: £4.7m) is secured by cash as part of an interest offset arrangement between some accounts held by the Group with HSBC and NatWest individually. Under the respective arrangements, in a situation of default by the Group, HSBC and NatWest may apply credit bank balances to satisfy bank balances in deficit held by the Group with them respectively.

19. Share capital and Other reserves

The Company has one class of ordinary shares, which carry no right to fixed income. The share capital is analysed below.

	2017 £m	2016 £m
Issued and fully paid		
442,674,523 ordinary shares at 25p each (2016: 42,674,511)	110.7	10.7

During the year, the Group issued a further £100m share capital during the year in order to have a consistent debt to equity ratio across the world wide group.

Other reserves for Group and Company are analysed below.

	Cash Flow Hedge Reserve £m	Retirement Benefit reserve £m	Foreign Currency Translation Reserve £m	Total £m
Group				
At 31 March 15	(12.8)	(2.9)	(0.3)	(16.0)
Gains arising during the year	0.8	1.0	0.1	1.9
Income tax effect	(0.3)	(0.2)	-	(0.5)
Transfer to retained earnings	-	-	0.3	0.3
At 31 March 16	(12.3)	(2.1)	0.1	(14.3)
Gains/(losses) arising during the year	3.9	(7.2)	-	(3.3)
Income tax effect	(0.7)	1.4	-	0.7
At 31 March 2017	(9.1)	(7.9)	0.1	(16.9)

19. Share capital and Other reserves (continued)

	Cash Flow Hedge Reserve	Retirement Benefit reserve	Other	Total
	£m	£m	£m	£m
Company				
At 31 March 15	(12.8)	(2.9)	-	(15.7)
Gains arising during the year	0.8	1.0	-	1.8
Income tax effect	(0.2)	(0.2)	-	(0.4)
Transfer to retained earnings	-	-	-	-
At 31 March 16	(12.2)	(2.1)	-	(14.3)
Gains/(losses) arising during the year	3.9	(7.2)	-	(3.3)
Income tax effect	(0.7)	1.4	-	0.7
Transfer to retained earnings	-	-	(0.1)	(0.1)
At 31 March 2017	(9.0)	(7.9)	(0.1)	(17.0)

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments where the hedged transaction has not yet occurred.

Retirement benefit reserve

The retirement benefit reserve comprises the actuarial gains and losses recognised on defined benefit pension scheme.

Foreign currency translation reserve

The translation reserve comprises all exchange rate differences arising from the translation of the financial statements of Hitachi Capital Polska sp zoo, a company within the Group.

20. Dividends Paid and Proposed

	2017 £m	2016 £m
Declared and paid during the year		
Final dividend for the year ended 31 March 2016 of nil per share (2015: 33.3p)	-	14.2
Interim dividend for the year ended 31 March 2017 of nil per share (2016: 0p)	-	-
	-	14.2

Proposed for approval at the Annual General Meeting

(not recognised as a liability as at 31 March)

Final dividend for the year ended 31 March 2017 of nil per share (2016: nil)

The Group's dividend policy is to retain 70% of Profit after Tax and pay 30% as dividend. However, HCUK has currently agreed with Hitachi Capital Corporation, our immediate parent company, not to make dividend pay-outs in order to build its retained profit balance and lower its debt to equity multiple. This request was based upon our growth forecasts and a desire to maintain the same gearing as our parent company, being approximately 8:1 debt to equity ratio.

Therefore, the interim dividend in the year was £nil (2016: £nil) and the directors have recommended that no further dividend (2016: £nil) will be proposed for the year ended 31 March 2017. Dividend policy will be based upon maintaining debt to equity ratio of approximately 8:1 after allowing for growth. The Group issued a further £100m share capital during the year in order to have a consistent debt to equity ratio across the world wide group.

21. Provisions

	Customer claims	Onerous lease and dilapidations	Other	Company Total	Onerous lease and dilapidations	Other	Group Total
	£m	£m	£m	£m	£m	£m	£m
As at March 2015	22.8	1.3	-	24.1	0.3	0.4	24.8
Provided during the year	8.4	0.1	-	8.5	-	0.6	9.1
Released during the year	(1.3)	-	-	(1.3)	-	-	(1.3)
Utilised	(7.4)	(0.4)	-	(7.8)	-	(0.1)	(7.9)
At 31 March 2016	22.5	1.0	-	23.5	0.3	0.9	24.7
Transfer of business from subsidiary (note 29)	0.3	0.3	0.6	1.2	(0.3)	(0.9)	-
Provided during the year	4.6	0.2	0.7	5.5	-	-	5.5
Released during the year	(5.1)	-	-	(5.1)	-	-	(5.1)
Utilised	(4.6)	(0.3)	(0.4)	(5.3)	-	-	(5.3)
At 31 March 2017	17.7	1.2	0.9	19.8	-	-	19.8
Analysed as							
Current	17.2	0.3	0.9	18.4	-	-	18.4
Non current	0.5	0.9	-	1.4	-	-	1.4

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 were in place for two premises up to year-end, and an onerous lease provision was held for the previous premises. The lease for the previous premise expired on 3 April 2017 and the premises handed over to the Landlord at this date. A dilapidations provision was in place for the Group's previous registered office, work for which was conducted predominantly in March 2017. Further, dilapidations provisions have been created for the Group's 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. In the year, the lease for the Newbury site was renegotiated and extended for a further 5 years. The estimated outflow of the non-current element of this provision is expected to be: less than five years £0.3m (2016: £0.7m), over 5 years but less than 10 years £0.6m (2016: £nil) and over 10 years £0.3m (2016: £0.4m).

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 £2.1m (2016: £1.9m) represents contributions payable to the scheme at rates specified in the rules of the scheme. There were no unpaid contributions at either 31 March 2017 or 31 March 2016.

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 2016, and the Group made a £4.2m contribution payment in October 2016 to remove the deficit. The Group expects to contribute £0.5m to the scheme during the year ending 31 March 2018.

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 2017 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 2016 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.

IFRIC 14 has no impact on the figures in this note because the Company has an unconditional right to a refund of any surplus in the Scheme once the last member's liabilities have been settled. This position is not expected to change once the currently drafted changes to IFRIC 14 come into effect for accounting years beginning on or after 1 January 2019.

The weighted average duration of the defined benefit obligation is 24 years (2016: 23 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:

	2017	2016
Significant assumptions:		
Retail price inflation	3.2% pa	3.0% pa
Discount rate	2.6% pa	3.6% pa
Life expectancy of		
Male aged 65 now	22.9 years	22.9 years
Male aged 65 in 20 years	24.6 years	24.8 years
Female aged 65 now	25.0 years	25.5 years
Female aged 65 in 20 years	26.9 years	27.5 years
Other related assumptions:		
Consumer price inflation	2.1% pa	2.0% pa
General salary increases	3.2% pa	3.0% pa
Pension increases in payment		
5.0% or RPI if less	3.1% pa	2.9% pa
3.0% or CPI if less	1.9% pa	1.8% pa
2.5% or RPI if less	2.1% pa	2.0% pa

22. Retirement Benefit Pension Schemes (continued)

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

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

	2017	2016
	£m	£m
Current service cost	0.3	0.6
Administrative expenses	0.3	0.2
Net interest credit on net defined benefit asset	(0.1)	(0.1)
IAS19 cost for the year	0.5	0.7

The IAS19 cost has been included in Administrative expenses.

In addition, an actuarial loss of £7.2m. (2016: gain of £1.1m) has been recognised in the consolidated statement of comprehensive income. The actual return on scheme assets was a gain of £7.8m (2016: loss of £0.1m).

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:

	2017	2016
	£m	£m
Present value of defined benefit obligations	(58.3)	(43.5)
Fair value of scheme assets	57.0	45.2
Liability recognised in the statement of financial position	(1.3)	1.7

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

	Fair value of scheme assets		Present value of obligations		Net Asset / (liability)	
	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m
At 1 April of previous year	45.2	45.3	(43.5)	(44.7)	1.7	0.6
Current service cost	-	-	(0.3)	(0.6)	(0.3)	(0.6)
Administrative expenses	(0.3)	(0.2)	-	-	(0.3)	(0.2)
Interest	1.7	1.6	(1.6)	(1.5)	0.1	0.1
Contributions from scheme members	0.1	0.1	(0.1)	(0.1)	-	-
Contributions from the employer	4.7	0.7	-	-	4.7	0.7
Re-measurement of gains/losses due to:	6.1	(1.7)	(13.3)	2.8	(7.2)	1.1
<i>Liability experience</i>	-	-	0.1	-	0.1	-
<i>Changes in financial assumptions</i>	-	-	(14.1)	2.8	(14.1)	2.8
<i>Changes in demographic assumptions</i>	-	-	0.7	-	0.7	-
<i>Return on plan assets less interest</i>	6.1	(1.7)	-	-	6.1	(1.7)
Benefits paid	(0.5)	(0.6)	0.5	0.6	-	-
At 31 March of current year	57.0	45.2	(58.3)	(43.5)	(1.3)	1.7

22. Retirement benefit pension schemes (continued)

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

	2017	2016
	£m	£m
Equity instruments	20.0	15.5
Government Bonds	13.1	10.7
Corporate Bonds	5.6	4.7
Property	6.7	6.6
Net current assets	(0.1)	(0.1)
Diversified growth fund	11.7	7.8
Total	57.0	45.2

The scheme's assets are invested in a diversified range of asset classes. As at 31 March 2017 the target allocation was to invest 35% of the Scheme's assets in liability matching assets and 65% in a return-seeking portfolio. The scheme's trustees plan to increase the proportion invested in liability matching assets linearly until the Scheme's assets are 100% invested in liability matching assets in 2066.

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 2017 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 2017	31 March 2016	31 March 2017	31 March 2016	31 March 2017	31 March 2016
		£m	£m	£m	£m	£m	£m
Discount rate	Increase 0.1% pa	(1.3)	(0.9)	(0.4)	(0.3)	(0.9)	(0.6)
RPI inflation	Increase 0.1% pa	1.2	0.9	0.3	0.3	0.9	0.6
Life expectancy at 65	Increase 1 year	2.4	1.5	-	-	2.4	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 2017	Group 2016	Group 1 April 2015	Company 2017	Company 2016
	£m	Restated* £m	Restated* £m	£m	£m
Current (trade and other payables)					
Balances due to invoice financing clients	-	54.0	52.9	-	54.0
Rentals in advance and deferred maintenance*	18.5	7.9	11.7	18.5	-
Trade creditors and accruals	64.0	59.0	52.2	63.4	33.4
Other creditors	76.8	10.7	19.9	77.3	7.6
Total	159.3	131.6	136.7	159.2	95.0
Non current (trade and other payables)					
Rentals in advance and deferred maintenance*	31.9	39.6	30.6	31.9	-
Retailer liability	62.8	53.6	51.1	62.8	53.6
Total	94.7	93.2	81.7	94.7	53.6

*In 2016, there was an error in reclassification of current and non-current portion. The error has been corrected by restating each of the affected financial statement line items for the prior periods, as follows:

23. Trade and Other Payables (continued)

	2016 £m	2015 £m
Trade and other payable – current	(39.6)	(30.6)
Trade and other payable – non-current	39.6	30.6
Net impact	-	-

The above reclassification has no impact on equity and income statement.

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:

24.1 Transactions with immediate parent undertakings

The Group entered into transactions with its immediate parent company, Hitachi Capital Corporation. The following tables show outstanding amounts and corresponding income and expenses recognised during the year.

	2017 £m	2016 £m
Payments for administration charges	6.1	5.2
Receipts for administration charges	1.6	0.0
Dividends paid	-	14.2
	2017 £m	2016 £m
Amounts owed to Hitachi Capital Corporation	3.3	2.8
Amounts owed from Hitachi Capital Corporation	1.1	-

24.2 Transactions with other related parties

The Group entered into transactions with Hitachi companies that have significant influence over it. The following tables show outstanding amounts and corresponding income and expenses recognised during the year.

	2017 £m	2016 £m
Interest paid to Hitachi companies	0.6	0.9
Payments for administration charges	0.7	-
Receipts for administration charges	0.2	-
Interest income from Hitachi companies	0.1	-
Lease income from Hitachi companies	0.3	0.3
	2017 £m	2016 £m
Amounts owed to Hitachi companies	-	71.9
Amounts owed from Hitachi companies	19.8	19.8
Amounts due in respect of leases	0.6	0.6
Accrued interest expense	-	0.1

Company has guaranteed £45.3m (2016: £27.8m) of bank borrowings to the subsidiary Hitachi Capital Polska sp z o.o.

25. Remuneration of Key Management Personnel

Key management personnel are defined as the Executive Committee members, Executive and Non-Executive Directors of the Group. Their remuneration is set out below.

	2017	2016
	£m	£m
Short term employee benefits	2.8	2.6
Amounts receivable under long term incentive plans	0.7	0.7
Post employment benefits	0.1	0.2
Total	3.6	3.5
Aggregate amount of remuneration paid to the directors	2.8	2.6
Highest paid director's remuneration in the year	0.7	0.6

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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Minimum lease payments under operating leases recognised in the income statement during the year				
Plant and equipment	0.6	0.6	0.6	-
Land and buildings	1.3	1.5	1.2	1.1
Total	1.9	2.1	1.8	1.1

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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Within 1 year	1.2	1.3	1.2	1.0
More than 1 year but less than 5	4.8	3.9	4.8	3.7
Over 5 years	6.3	7.3	6.3	7.3
Total	12.3	12.5	12.3	12.0

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 sp zoo, 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 £239.7m (2016: £218.7m).

26. Operating Lease Arrangements (continued)

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

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Within 1 year	195.3	173.4	189.3	7.7
More than 1 year but less than 5	254.3	204.8	247.7	15.6
Over 5 years	15.4	10.8	15.4	0.1
Total	465.0	389.0	452.4	23.4

27. Financial Risk Management Objectives and Policies

27.1 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 £4.0m (2016: £2.3m) of lease payments due from businesses in France, Italy, Poland, Portugal, Spain, Switzerland and Turkey to third party lessors and receives a fee for these services. In addition, the Company has guaranteed £45.4m (2016: £27.8m) of bank borrowings to the subsidiary Hitachi Capital Polska sp zoo.

The Group has a Credit Risk Committee ("CRC") that provides a key element of an effective second line of defence to the credit approval and portfolio risk management functions within the Group's business units. The CRC maintains 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's credit risk exposures are 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.

27. Financial Risk Management Objectives and Policies (continued)

27.1 Credit Risk (continued)

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 generally maintained at nil or insignificant levels. When HCUK has cash to deposit, these deposits are split between three to four different UK and Polish 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.

Credit Quality

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Gross loans and receivables and trade debtors:				
Neither past due nor impaired:				
Very low risk	1,924.0	1,700.7	1,928.9	2,167.4
Low risk	937.0	847.9	921.0	838.1
Moderate risk	522.1	561.6	522.1	561.6
High risk	205.3	255.7	205.3	255.7
Ungraded	122.3	92.5	122.3	50.5
Total	3,710.7	3,458.4	3,699.6	3,873.3
Past due but not impaired:				
< 30 days	4.6	4.3	4.6	4.3
31-60 days	24.4	29.8	24.3	19.8
61-90 days	5.1	4.4	5.1	2.8
91-365 days	9.1	6.0	9.1	3.8
>365 days	2.1	2.0	2.1	2.0
Total	45.3	46.5	45.2	32.7
Individually impaired				
Retail	21.9	14.7	21.9	14.7
Commercial	93.2	77.1	93.1	76.6
Total	115.1	91.8	115.0	91.3
Total	3,871.1	3,596.7	3,859.8	3,997.3
Gross loans and receivables	3,827.0	3,551.6	3,817.8	3,997.2
Trade debtors	44.1	45.1	42.0	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 and bureaux. 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.

27. Financial Risk Management Objectives and Policies (continued)

27.1 Credit Risk (continued)

'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.

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 2017, deferred cash flows amounted to £57.7m (2016: £53.6m), against related gross loans and receivables of £1,937.4m (2016: £1,746.9m). There was no collateral held against gross loans and receivables amounting to £717.5m (2016: £749.4m). Of the total gross loans and receivables, £21.9m was impaired at the year-end (2016: £14.7m).

(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 £14.0m (2016: £12.9m), 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 above. 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. Of the total gross loans and receivables, £96.3m (2016: £85.3m) related to block discounting agreements. Collateral coverage for block discounting agreements is verified regularly by an internal audit team.

Of the total gross loans and receivables, held by Business Finance, £92.4m was impaired (2016: £76.0m). Of this amount, £89.4m (2016: £73.9m) was performing as agreed and not past due.

27. Financial Risk Management Objectives and Policies (continued)

27.1 Credit Risk (continued)

(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 £74.5m (2016: £56.7m) are primarily collateralised by trade receivables purchased from factoring clients which had a gross value of £123.4m (2016: £110.8m), 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

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 £14.1m (2016: £8.2m), 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.

27.2 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
At 31 March 2017								
Non derivative financial liabilities:								
Foreign currency denominated borrowings	(997.3)	(338.2)	(155.8)	(39.0)	(71.7)	(1.0)	(34.0)	(1,637.0)
Sterling borrowings	(55.6)	(237.6)	(596.7)	(354.9)	(251.4)	(194.9)	(101.8)	(1,792.9)
Securitisation	(183.7)	(77.2)	(29.8)	(10.1)	(3.5)	(0.6)	(0.1)	(305.0)
Trade payables	(159.3)	-	-	-	-	-	-	(159.3)
Financial Guarantees	(2.3)	-	-	-	-	-	-	(2.3)
	(1,398.2)	(653.0)	(782.3)	(404.0)	(326.6)	(196.5)	(135.9)	(3,896.5)
Derivative financial liabilities:								
Foreign currency receipts relating to cross currency swaps	(725.6)	(326.5)	(151.4)	(39.0)	(71.7)	(1.0)	(34.0)	(1,349.2)
Sterling payments relating to interest rate swaps	5.4	2.1	1.1	0.7	0.6	0.6	0.1	10.6
Sterling receipts relating to interest rate swaps	(0.8)	(0.6)	(0.3)	-	-	-	-	(1.7)
Sterling payments relating to cross currency swaps	631.2	295.7	131.9	30.2	63.9	0.5	29.9	1,183.3
	(89.8)	(29.3)	(18.7)	(8.1)	(7.2)	0.1	(4.0)	(157.0)
At 31 March 2016								
Non derivative financial liabilities:								
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)
	(1,575.7)	(775.8)	(705.5)	(246.9)	(104.3)	(100.9)	(51.1)	(3,560.2)
Derivative financial liabilities:								
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
	(13.5)	(14.8)	(6.8)	(3.5)	(2.3)	(0.4)	-	(41.3)

27. Financial Risk Management Objectives and Policies (continued)

27.2 Liquidity Risk and Funding Management (continued)

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 Finance Director 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.

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
	2017	2017	2016	2016
	£m	%	£m	%
US\$4.0bn (2016: US\$4.0bn) European medium term note programme	1,445.4	55	1,433.0	49
US\$400m (2016: US\$400m) European commercial paper programme	85.3	73	29.5	89
€250m (2016: €205m) Belgian domestic commercial paper programme	156.9	26	195.5	1
£300m (2016: £300m) committed securitisation programme	299.9	-	291.3	3
£205m (2016: £205m) uncommitted Short term facilities from relationship banks	55.6	78	48.1	77
£1.6bn (2016: £1.2bn) uncommitted Long Term facilities from relationship banks	1,384.7	15	1,023.8	14
Syndicated Loans	159.6	-	213.3	-
Loans from Hitachi group undertakings	-	-	74.0	-
Other loans from banks	45.3	-	28.8	-
Total Borrowings	3,632.7	-	3,337.3	-

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.

27.3 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.

27. Financial Risk Management Objectives and Policies (continued)

27.3 Market Risk (continued)

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. 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.

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 (calculated using interest rate sensitivity analysis on the assets and liabilities) 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 maturity profile 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 2017 and 31 March 2016, all currency exposures on non-sterling debt were 100% hedged. This risk is also monitored monthly.

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 IRSs' 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 IRSs' 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 IRSs' economically hedge the Group's cash flow exposure they cannot be designated as cash flow hedges under IAS39.

27. Financial Risk Management Objectives and Policies (continued)

27.3 Market Risk (continued)

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 £14.0m (2016: debited by £11.0m). This is mainly attributable to the Group's exposure to interest rates on variable rate borrowings.
- Other equity reserves would be credited by £15.6m (2015: credited by £38.1m) 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 highly unlikely as it requires 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 £7.0m (2016: credited by £5.5m) & other equity reserves debited by £9.5m (2016: debited by £19.0m) approximately.

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.

27.4 Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, failed processes 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. The Group has an Operational Risk Committee which is comprised of members of HCUK Executive Committee, one non-executive Director, and several other senior risk managers. The committee meets monthly and reviews the operational risk registers of each business unit and function, and any operational risk incidents that have been reported. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

27. Financial Risk Management Objectives and Policies (continued)

27.5 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 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.

27.6 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 18. 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.

27.7 Transferred financial assets that are not derecognised by the Group

The Group operates two Securitisation programmes that 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).

Consumer Securitisation programme

In accordance with the terms and conditions, as at 31 March 2017 the Group (and the Company) had transferred £250.3m (2016: £277.5m) of its instalment finance agreements, with a fair value of £246.9m (2016: £278.8m) to The Royal Bank of Scotland plc, 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 £200m (2016: £200m), with a fair value of £200m (2016: £200m) as at reporting date.

SME Securitisation programme

In accordance with the terms and conditions, as at 31-March 2017 the Group (and the Company) had transferred £126.3m (2016: £116.6m) of its hire purchase and finance lease receivables, with a fair value of £125.6m (2016: £117.1m) to The Royal Bank of Scotland plc, 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 £100m (2016: £91.3m), with a fair value of £100m (2016: £91.6m) as at reporting date.

27.8 Transferred financial assets that are derecognised by the Group

During the year, the Group sold pools of instalment finance receivables to special purpose entities under two programmes, Securitisation Of Consumer Agreements (SOCA) and Securitisation Of Unsecured Loans DAC (SOUL DAC). The transactions resulted in full derecognition of the financial assets from the Group's statement of Financial Position on the basis that Group has transferred sufficient risks and rewards and had surrendered control over the transferred assets.

Securitisation Of Consumer Agreements (SOCA)

Following the transfer, the Group's continued involvement in the transferred assets to act as a servicer of the transferred assets, with a servicing fee of 0.8% of outstanding capital balance paid on a monthly basis. The Group has also provided a subordinated debt with a carrying amount and fair value of £10.1m (2016: nil). This has been reported within loans and receivables on the balance sheet.

27. Financial Risk Management Objectives and Policies (continued)

27.8 Transferred financial assets that are derecognised by the Group (continued)

Securitisation Of Unsecured Loans DAC (SOUL DAC)

Following the transfer, the Group's continued involvement in the transferred assets to act as a servicer of the transferred assets, with a servicing fee of 1.5% (2016: nil) of outstanding capital balance paid on a monthly basis. The Group has also provided subordinated debt with a carrying amount of £17.3m (2016: nil). This has been reported within loans and receivables on the balance sheet.

The following table summarises the impact on the Group's statement of financial position and maximum exposure to risk as a result of its continuous involvement:

	2017			2016		
	Carrying value	Fair value	Maximum exposure	Carrying value	Fair value	Maximum exposure
	£m	£m	£m	£m	£m	£m
Securitisation Of Consumer Agreements (SOCA)	10.1	10.1	10.1	-	-	-
Securitisation Of Unsecured Loans DAC (SOUL DAC)	17.3	17.9	17.9	-	-	-
Total	27.4	28.0	28.0	-	-	-

The following table summarises the impact on the Group's income at the time of the transaction and as a result of its continuous involvement.

	2017			2016		
	SOCA	SOUL DAC	Total	SOCA	SOUL DAC	Total
	£m	£m	£m	£m	£m	£m
Interest income	0.8	0.6	1.4	-	-	-
Service fees	0.5	2.3	2.8	-	-	-
Other costs	(0.2)	(0.3)	(0.5)	-	-	-
Loss on disposal	(0.6)	(2.2)	(2.8)	-	-	-
Net income	0.5	0.4	0.9	-	-	-

28. Contingent Consideration

On 3 April 2014, the Group acquired Hitachi Capital Polska sp. z o.o., 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, 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 2017, the fair value of the contingent consideration was estimated to be £0.4m (2016: £0.3m) which is included within trade and other payables in the statement of financial position.

29. Transfer of Hitachi Capital Vehicle Solutions Ltd

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

Assets acquired and liabilities assumed

The carrying values of the identifiable assets and liabilities of Hitachi Capital Vehicle Solutions Ltd as at the date of acquisition were:

	Carrying value recognised on acquisition £m
Assets	
Property, plant and equipment	611.3
Cash and cash equivalents	-
Receivables	70.4
Other assets	8.0
Intangible assets	8.8
	698.5
Liabilities	
Payables	134.2
Borrowings	466.9
	601.1
Net assets at carrying value	97.4
Purchase consideration through intercompany undertakings	97.4

Company Information

Hitachi Capital Corporation a company incorporated in Japan is the parent undertaking of the smallest and 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: No 3-1, Nishi Shimbashi, 1 Chome, Minato-ku, Tokyo 105-0003, Japan.

On 3 October 2016, Hitachi Limited, the ultimate parent company, sold 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, Hitachi Limited continue to be the single largest shareholder of Hitachi Capital Corporation with 33.4% investment. 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.

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2 Apex View and Interchange House Leeds West Yorkshire LS11 9BH Tel: 0344 375 5500	Hitachi Capital House Thorpe Road Staines-upon-Thames, Middlesex TW18 3HP Tel: 01784 227 322	5 Hollinswood Court Stafford Park 1 Telford Shropshire TF3 3DE Tel: 01952 213 300
Hitachi Capital Vehicle Solutions Ltd		
Kiln House Kiln Road Newbury Berkshire RG14 2NU Tel: 0344 463 2900	Hakuba House White Horse Business Park Trowbridge — Wiltshire BA14 0FL Tel: 01225 777 710	Willow Court 34, Thurmaston Lane Leicester LE5 0TE Tel: 0116 298 9342
Hitachi Capital Polska sp zoo	Hitachi Capital Insurance Europe Ltd	
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