Registration number: 1630491

Hitachi Capital (UK) PLC

Annual Report and Consolidated Financial Statements

for the Year Ended 31 March 2018

Hitachi Capital (UK) PLC

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Hitachi Capital (UK) PLC

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 ("HCUK"). 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.

Chairman	G. Munnoch
Chief executive Officer	R. Gordon
Directors	H. Fukuro R. Gordon A. Hughes G. Munnoch Y. Ohashi A. Whitaker
Company secretary	J.N.M. Sims
Registered office	Hitachi Capital House Thorpe Road Staines-upon-Thames Surrey TW18 3HP
Auditors	Ernst & Young LLP 25 Churchill Place London E14 5EY

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

Consumer Finance

2 Apex View, and Interchange House, Leeds, West Yorkshire, LS11 9BH, Tel: 0344 375 5500

Business Finance and European Vendor Solutions

Hitachi Capital House, Thorpe Road, Staines-upon-Thames, Tel: 01784 227 322

Invoice Finance

5 Hollinswood Court, Stafford Park 1, Telford, Shropshire, TF3 3DE, Tel: 01952 213 300

Vehicle Solutions

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

Hitachi Capital (UK) PLC

Overview

The directors present their strategic report for Hitachi Capital (UK) PLC (the Company) and its subsidiaries (the Group) for the year ended 31 March 2018. 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 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, a world leader for manufacturing and technology and Mitsubishi UFJ Financial Group. We are authorised and regulated by the Financial Conduct Authority (FCA).

Our vision, mission and values
Our vision is to be the trusted brand of financial services in the UK and across Europe, with a mission of exceptional people providing outstanding customer experiences today. Our values are based upon the founding values at Hitachi Limited, being "Harmony", "Sincerity" and "Pioneering spirit".

What we do
The Group has Net Earning Assets* of £4.8bn 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.

Net Earning Assets* £4.8bn
Profit before tax £116.4m

*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 1.2 million UK customers with £2.3 billion of consumer lending during the year ended 31 March 2018. The business has over 30 years of experience and works with some of the leading high street retailers. It continues to be an active partner for retailers in the UK, providing sales support consistently through economic cycles, having increased lending year on year for the last ten 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 as well as fleet environmental impact.

Hitachi Capital (UK) PLC

Overview (continued)

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.

Invoice Finance
Hitachi Capital Invoice Finance provides cash flow solutions to over 700 clients across a wide range of sectors in the UK and places great emphasis on providing outstanding service to UK SMEs.

European Vendor Solutions
The European Vendor Solutions business unit executes the Hitachi Capital Corporation common strategy in Europe. European Vendor Solutions arranges, provides and guarantees funding for a variety of Hitachi and Mitsubishi products and services in markets throughout Europe. These facilities are arranged through strategic local partners or provided directly by Hitachi Capital (UK) PLC.

Hitachi Capital (UK) PLC

Group Strategic Report

Chairman's statement

Results
The Group continues its track record of delivering strong financial performance. Profits before tax in the last financial year were £116.4m, representing an increase of 7% over 2017. The Group has achieved a six fold rise in profits over the past nine years, which has been extraordinary in a relatively flat period of economic growth.

Outlook
Whilst uncertainty created by Brexit and recent political developments may generally not be conducive for business, they will also present opportunities. The European Vendor Solutions business unit has opened a branch in the Netherlands to support our European activities and both Hitachi and Mitsubishi group companies across the Continent.

The Group's continuous investment in technology and eCommerce capabilities, alongside several operational transformational programmes, will position it well to meet its future growth aspirations whilst enhancing its focus on customer service and quality.

Governance
The Group takes into account the relevant principles and provisions of the UK Corporate Governance Code. The Group adopts a prudent risk appetite and has a clear focus on market conduct whilst providing fair outcomes for all our customers is central to our business.

Dividend
The directors are proposing a final dividend of approximately 6.8p (2017: nil) per share totalling £30m (2017: £nil). This dividend has not been accrued in the statement of financial position.

I would like to thank our parent company for its support and 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
28 June 2018

Chief Executive Officer's review

In the last financial year, Hitachi Capital (UK) PLC achieved its ninth consecutive year of profitable growth set against a backdrop of economic uncertainty, particularly around Brexit, with many businesses deferring investment decisions and above-target inflation acting as a drag on consumer spending. In addition, the Group embarked on an intense period of transformation to ensure that we have strong foundations to realise our growth ambitions, deliver fair customer outcomes and manage risk effectively.

	2018	2017
Profit before tax (PBT)	£116.4m	£108.7m
PBT growth	7.1%	13.0%
New Business Volume	£3.5bn	£3.0bn
Net Earning Assets	£4.8bn	£4.1bn
Pre-tax Return on Net Earnings Assets	2.4%	2.7%
Bad Debt ratio	0.6%	0.5%
Cost income ratio	47.0%	48.0%
Number of employees	1,238	1,214
Effective tax rate	20.2%	21.0%
Post-tax return on equity	15.7%	17.8%

New Business Volume grew by 17% year on year through growth in all our divisions, particularly Consumer Finance. This in turn drove a 17% growth in Net Earning Assets. We have experienced an increase in demand for affordable consumer credit and businesses have sought leasing and hire solutions with increasing frequency over the last year. HCUK provide award winning flexible solutions. The high level of service we provide is valued by customers and has resulted in sustained high growth of new business. However, competitive pressures have squeezed margins, particularly for our Consumer Finance retail point of sale business, reducing our return on assets.

We have not sacrificed credit quality to pursue growth. As a result, the Group's charge for bad debt impairment reduced year on year to £16.6m (2017: £18.1m), reflecting stability in the credit quality of our portfolios.

Administration Expenses before goodwill impairment increased by £1.4m to £117.8m. During the year we invested significantly in our employees, IT infrastructure and controls ensuring that we continue to enhance the capabilities which are crucial for our on-going financial growth.

The effective tax rate fell to 20.2% (2017: 21%). It is expected that the effective tax rate will be stable for the coming year.

The post-tax return on equity fell to 15.7% (2017: 17.8%) due to increased equity as a result of retaining our profits.

On 11 October 2017, the Company sold Hitachi Capital Polska Sp. z o.o., a wholly owned subsidiary, to its immediate parent company, Hitachi Capital Corporation, for a cash consideration of £3.1m (note 12 to the financial statements), resulting in a £0.2m profit on disposal. This resulted in a reduction in Hitachi Capital (UK) PLC headcount by 46 employees.

Chief Executive Officer's review (continued)

During the year, the Group continued to sell tranches of instalment finance receivables to special purpose entities under two programmes. These transactions resulted in full de-recognition of the financial assets from the Group's statement of financial position. Further details are contained in note 28.

During the year, the Group decided to close the defined benefit pension scheme to future accrual with effect from 5 April 2018. The effect of the closure has been recognised in the income statement. Further details are contained in note 24.

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. Gearing, after reflecting the effect of currency risk hedging, is 7.0 times (2017: 7.0 times) and is well within the limit of 25 times equity set out in the Company's Articles of Association.

A year of transformation

Over the last 12 months, we have reviewed all areas of our business to ensure we have a solid platform to realise our growth ambitions and, more importantly, ensure that we deliver fair outcomes for our customers.

We have strengthened our compliance, monitoring and quality assurance functions, to ensure we have the appropriate level of governance and control arrangements in place to support our ambitious growth plans and our operations within a highly regulated environment.

Whilst we have invested significant resource into preparing for the detailed technical requirements of the General Data Protection Regulation (GDPR) that came into effect on 25 May 2018, our ethos has always been to take the custody of our customers' data very seriously. We continue to invest heavily in our IT infrastructure across all of our business units, to continually improve security and efficiency and to enhance the experience for our customers. Specific IT investments are detailed within the Divisional highlights section.

We have delivered rapid expansion in our overseas activities. We now have operations across 13 European countries, connecting more businesses to Hitachi Ltd's pioneering technology. To support the European expansion of the business, we opened a branch office in Amsterdam, Netherlands in September 2017, to provide vendor finance solutions to Hitachi and Mitsubishi group companies with European head offices based in the country.

Our people are vital to our success and it is important that all our staff feel part of Hitachi Capital (UK) PLC. We appreciate and value differences, and we strive to create an engaging environment for everyone to be able to contribute to the success of the Company.

In April 2018, we reported our gender pay gap figures, a process that we fully support as we look to tackle inequalities both within the finance industry and more widely. As detailed in the Corporate Social Responsibility section, we fully recognise that the Group has a gender pay gap and we are taking a number of initiatives to bring about the change required to build a more diverse and inclusive work environment.

Chief Executive Officer's review (continued)

Investing in our people to help them fulfil their potential is a crucial element of our vision to be the trusted brand of financial services in the UK and Europe, with our mission of exceptional people providing outstanding customer experiences. As part of our commitment to developing the talent of the future, we offer enhanced 'apprenticeship' training for existing employees.

Conclusion and Outlook
Our strategy of offering value added financial products and superior customer service in our chosen markets has successfully delivered continued profitable growth. We remain focused on maintaining this trend, through delivering fair customer outcomes as well as continually improving the end to end customer experience, underpinned by targeted investment in our IT Infrastructure and people.

A key part of our strategy is to work with, and deepen our relationships with, Hitachi Limited companies and with Mitsubishi UFJ for the mutual benefit of all parties.

We are confident in the outlook for the business but remain vigilant against potential economic risks. Our business is well placed to face these potential challenges, through increased diversification across a number of sectors and concentration on lower-risk products.

The UK is due to exit the European Union on 29 March 2019, bringing with it uncertainty over its future trading relationships. Our branch in the Netherlands provides us with a base for further expansion into Europe. Reflecting our overseas growth ambition, the European Vendor Solutions team became a separate division, European Vendor Solutions, in April 2018.

We have stress-tested our portfolio to see how much the UK economy would have to deteriorate before the Company ceases to be profitable. We projected that bad debt levels would need to increase to 5.6 times the levels experienced during the last recession before the Company would make a loss. As a business, we are well capitalised and the projected repayment of the receivables is well in excess of the projected debt servicing throughout the life of the existing assets.

On behalf of myself and the Board, I would like to take this opportunity to thank employees across Hitachi Capital (UK) PLC for the hard work and dedication they have put into the business over the past year. We look forward to continuing to provide our customers with outstanding customer experiences, which we are confident will help us continue to grow and generate sustainable profit.

By order of the Board.

R. Gordon
Chief Executive Officer
28 June 2018

Divisional Highlights

Consumer Finance

Highlights
- Total loans £2.3bn
- Profit before tax £72.8m
- 17% increase in PBT over 2016/17
- 1.2 million UK customers
- Increased lending for the ninth straight year
- 20% market share in retail point of sale

Results and Strategy
During the year ended 31 March 2018, we lent more than £2.3bn to over 700,000 customers and serviced over 1.2 million UK customers. Profit before tax stood at £72.8m, representing an increase of 17% over the previous year. Hitachi Capital Consumer Finance has grown significantly over the past decade. While retail point of sale is Hitachi Capital Consumer Finance's foundation, with a 20% market share in the retail point of sale sector, we have seen strong growth in our personal loans and motor finance businesses. Hitachi Capital Consumer Finance is one of the 10 largest lenders for consumer credit in the UK.

Over half of Hitachi Capital Consumer Finance's business volume is through retail point of sale, with a third comprising personal loans and 10% through motor finance. Hitachi Capital Consumer Finance is well-placed to continue to grow and make the most of opportunities in this environment.

Retail Point of Sale
For our retail partners, we combine heritage and stability with strong expertise across many retail sectors and point of sale finance. We understand modern demands from consumers and provide the products that fulfil them. For example, we can process a customer application for in-store credit within three minutes. Relationship management offers flexible solutions - pricing can be tailored to a retailer's own requirements, and our large retailer partners benefit from dedicated relationship managers.

Personal Loans
Our personal loans business, Hitachi Personal Finance, continues to grow. In 2017/18 it lent in excess of £805m, up from £606m in 2016/17 - a 32.8% increase in business volume. This success is based on a strong proposition that combines fast decision-making and processing with excellent customer service. On average, Hitachi Personal Finance processes a loan application every 60 seconds, with 95% of decisions made within 10 seconds and funds made available within 48 hours following a positive decision.

Our commitment to customer service has seen Hitachi Personal Finance named Best Personal Loans Provider at the YourMoney.com Awards for four years running and win the Best Customer Satisfaction Strategy Award 2017 from the Institute of Customer Service.

Divisional Highlights

Motor Finance
Our motor finance proposition works closely with car dealerships to offer competitive loans against new and second-hand vehicles. As we underwrite the individual rather than the asset, lending decisions are based on the customer's ability to affordably repay, rather than the perceived residual value of the car. Applications typically take just three minutes to complete and 95% of decisions are made within 10 seconds. We have also become the sole provider of ecommerce functionality to eCars247.com, a new and unique online motor dealer offering used cars.

Vehicle Solutions

Highlights
- Profit before tax £24m
- 67,600 assets
- Total asset value £882m
- 20% of Hitachi Capital (UK) PLC's business assets
- Unique Total Asset Solutions service proposition

Results and Strategy
In 2017/18, Hitachi Capital Vehicle Solutions generated profit before tax of £24m - this was a slight reduction on profit from 2016/17 (£25.3m) and reflects significant expenditure, which is not all capitalised, made over the past year in IT infrastructure to position the business for future growth.

Hitachi Capital Vehicle Solutions has grown significantly over the past 10 years. The annual volume of business has risen from £100m in 2009 to £370m in 2017/18. The business unit focuses on the long-term contract hire of vehicles to corporates, including maintenance and breakdown services. It also provides personal leasing and fleet management services. Hitachi Capital Vehicle Solutions' strategy is based on offering high levels of service, tailored to a client's individual needs, which allows it to retain existing customers and win new customers.

Its core services include fleet policy and strategy, engineering services (such as design specification and asset build), legal asset compliance, cost control and management, and asset utilisation and disposal. Our service is recognised within the industry, with multiple awards at the Commercial Fleet Awards 2017, including Van/Truck Contract Hire and Leasing Company of the Year, Van/Truck Fleet Management Company of the Year and Customer Partnership Initiative of the Year.

The business unit operates more than 67,600 assets, valued at £882m, and makes up 20% of Hitachi Capital (UK) PLC's business assets. This includes more than 37,400 cars, 26,300 vans and 3,800 HGV and specialist vehicles. We are one of the 10 largest leasing companies in the UK and uniquely in the market can offer a comprehensive range of assets, from cars to HGVs and plant machinery.

The past year has seen significant IT investment in Hitachi Capital Vehicle Solutions, creating a new core platform and a number of customer-facing digital solutions, including our new Connect portal for direct customers, our new application suite that includes a driver behaviour and vehicle health app, a new online service booking facility and a new vehicle daily check app for HGVs.

We are unique in our market place in our ability to offer Total Asset Solutions. The proposition extends beyond cars and vans to cover every kind of mobile asset, including large trucks, plant and machinery.

Divisional Highlights

Hitachi Capital Vehicle Solutions has a number of core propositions:-

Total Asset Solutions: the management of every mobile asset in a customer's control. This covers the design, funding, in-life management, MI and disposal of the asset. The underlying principle of this proposition is to increase the operating efficiency of our customers' fleets.

Car Select: the delivery of a car-based employee benefit for employees of medium and large corporates. This proposition covers several funding methods and focuses on designing and running the most effective and appropriate vehicle benefit for our customers. Service delivery to the employee and continuous improvement are key to this proposition.

Personal Leasing: a market leading personal lease offering that we market both directly and via a network of brokers. We base our proposition on the principles of being easy to deal with and competitive pricing and deliver the customer experience through an online platform that encompasses automated underwriting, online documentation and e-signature. Our personal leasing fleet covers over 15,000 vehicles.

Business Finance

Highlights
- Asset portfolio grows to £1bn+
- Pre-tax profit up 4.9% to £21.4m
- Market share up
- Launched new HP proposition for SMEs

Results and Strategy
In 2017/18, Hitachi Capital Business Finance's portfolio grew to £1bn for the first time. The business unit's overall share of the market grew from 1.68% in September 2015 to 2.0% in September 2017. Profit before tax was £21.4m, a 4.9% rise from 2016/17. Business Finance makes up 21% of Hitachi Capital (UK) PLC's business assets.

This year we launched our direct-to-market asset finance and business loan proposition. Our approach offers no hidden fees and a simple online application process that means we can give customers an instant response. The proposition includes straightforward repayment options and fast release of funds to a customer's supplier within 24 hours of receiving all necessary paperwork.

Hitachi Capital Business Finance has proven recognition as a service leader. In the past 12 months, the business unit has been awarded Best Business Motor Finance Provider at the Business Moneyfacts Awards 2017 and Leasing & Asset Provider of the Year 2017 by the National Association of Commercial Finance Brokers. Our service offering sets us apart from our competitors in the broker channel, as evidenced by the strong customer outcomes we consistently deliver. Hitachi Capital Business Finance is an accredited member of the Institute of Customer Service and is dedicated to satisfying customers.

As a business, we are committed to funding assets that allow SMEs to grow their business and be more successful. Around two-thirds (68%) of business comes via brokers, with the remaining third (32%) through block and vendor/manufacturer relationships.

During 2017/18, we became the first funder to offer the British Business Bank's Enterprise Finance Guarantee for Asset Finance. As the Government acts as guarantor for the loans and covers businesses that are just 18 months old, we are able to expand our offering to a wider market and further support the growth of more British business.

Divisional Highlights

Invoice Finance

Highlights
- 18% increase in new clients
- Significant reinvestment to ensure future growth
- Focus on people, technology and facilities
- Consolidation of locations
- Development of automated client approval and on-boarding process

Results and Strategy
Over the past two years, Hitachi Capital (UK) PLC has made an important investment in Hitachi Capital Invoice Finance to dramatically transform and prepare the business unit for future growth. As a result of this investment, Hitachi Capital Invoice Finance recorded a loss before tax of £2.1m in 2017/18. The business unit was consolidated in May from two sites to one, and is now based in our newly expanded and refurbished, Telford office. Retention during this period was high, with all clients transferred without loss.

In 2018/19 we are due to launch an automated client approval and on-boarding process which has been designed to reduce significantly the time to set up new clients for funding.

Hitachi Capital Invoice Finance generated record new business levels, with the number of new clients up 18% on the previous year, against the background of a static invoice finance market. Our Inspired Payroll product, which launched the previous year, recorded a 100% increase in sales.

Providing excellent customer service is a priority for Hitachi Capital Invoice Finance. We hold a rating of 4.9 stars for Service and 5 stars for Product on independent customer feedback platform, Feefo. A survey of existing clients, carried out in December 2017, found that 92% were happy with the service, while 96% would recommend Hitachi Capital Invoice Finance to other businesses.

We also won Best Service from Invoice Finance Provider and were highly commended for Best Factoring and Invoice Discounting Provider at the 2018 Business Moneyfacts Awards.

European Vendor Solutions

Highlights
- £242m volume of business in 2017/18
- Active in 13 European countries
- Dedicated European branch in Amsterdam
- European Vendor Solutions created as separate business unit in April 2018.

Results and Strategy
Since it was established in 2013, European Vendor Solutions (formerly called Group Business Development) has grown from a team of three people, writing £10m of business across three countries, to 20 people, transacting £242m in 13 countries in 2017/18 - more than double the volume of the previous year.

Our main business is providing end to end vendor finance solutions addressing the requirements of manufacturers and their distribution network through the product lifecycle, including stocking, demonstrator, end user and second hand equipment finance.

Divisional Highlights

As with all divisions of Hitachi Capital (UK) PLC, customer service is a core focus for European Vendor Solutions. The team has a high customer satisfaction score, being marked 8 out of 10 as a 'perfect fit' finance solution by our vendors. This is bolstered by our speed of execution, with 96% of proposals approved within the same day. In September 2017 we opened a branch office in Amsterdam, Netherlands, to strengthen our direct presence in Europe and increase the capability for cross-border lending into the European market. Reflecting these ambitions for growth, the European Vendor Solutions team became a separate business unit from April 2018.

European Vendor Solutions' priorities for 2018/19 are to develop the Netherlands branch as a new base for European activity, supporting the Hitachi Capital Corporation global common strategy, which focuses on the needs of Hitachi and Mitsubishi companies and their distribution networks. This will be delivered by expanding directly in Europe, the Middle East and Africa and through investment in the development of products to meet the needs of our vendor partners and end users. We will also look to expand our existing indirect programmes further into Europe, with local delivery through partners supported by strategic steering from the European Vendor Solutions team.

Principal risks & uncertainties

The Group risks are managed within the four categories set out below:

Strategic Risk - The risk that HCUK does not devise and implement a business strategy that is based upon its Vision, Mission and Values and/or that is not aligned to the Hitachi Capital Group Medium Term Strategy.

Financial Risk - The risk that HCUK does not deliver its business plan and profit target whilst maintaining the Group's bad debt charge and funding within agreed levels.

Conduct Risk - The risk that HCUK does not behave ethically or deliver fair outcomes for its customers, whilst operating in accordance with both the letter and spirit of applicable legislation and regulation, including the FCA Principles for Business.

Operational Risk - The risk that HCUK does not adequately and effectively manage its people, processes and systems to deliver HCUK's strategic objectives.

With reference to these categories, the principal risks that HCUK considers it currently faces are as follows:

Inherent Strategic Risk

Risk	Mitigants
We are unable to keep pace with market change or our products become too costly in comparison to competitors reducing our market share.	• We make significant ongoing investment in the quality of our systems and products. • We regularly review our prices to ensure that they remain competitive. • We have a Customer Experience Committee to understand our customers' attitudes and the outcomes they receive from our products.

Principal risks & uncertainties

Inherent Financial Risk

Risk	Mitigants
We are unable to access funding for the business or can only access at an unreasonable cost.	• We rely on wholesale markets to fund the creation of new assets for each underlying business. We raise term funding using a diversified set of sources - namely; private placement Medium Term Notes, bi-lateral and syndicated bank borrowing, securitisation, commercial paper and short term bank facilities. We raise funds in multiple different currencies and swap into Sterling. We attract investors from multiple regions including Japan, mainland Europe, Asia Pacific and the UK as well as maintaining bank counterparties from multiple regions. • We maintain borrowings that exceed the expected term of our assets at all times, including during potential run off scenarios modelled. • We ensure that we are able to draw on funding sources to meet forecast new asset creation through frequent, regular planning. • We ensure new business pricing includes current funding costs, to maintain an appropriate margin at all times.
We incur losses through ineffective hedging strategies or through counterparty failure.	• We set a range of treasury risk appetite limits and hedging strategies which are continually monitored. • We deploy effective interest rate hedging through derivative financial instruments / fixed rate borrowings. • We manage our effectiveness through regular Treasury Committee meetings at which the tenor of interest rate fixings in borrowing costs are matched against the tenor of the fixed rate income generated by the asset portfolio.

Principal risks & uncertainties

Risk	Mitigants
We face significant unexpected credit losses, arrears, increased bad debts and defaults.	• We use internal and external data, internally developed scorecards and other analytical tools to assess customer creditworthiness, affordability and debt service capacity. • We focus our lending activities in segments and products where we have clear and proven expertise. • We limit concentration of lending by size, segment and customer type. • Where appropriate, especially in commercial lending, we obtain appropriate levels of collateral or security cover. • We maintain detailed lending and credit policies for each Business Unit. • We regularly review portfolio performance against risk appetite. • We regularly re-grade or re-score customers to re-assess the default risk. • We regularly review retailers, vendors and other business introducers in order to assess and manage contingent liabilities for Hitachi Capital associated with the relationship.
We are subject to a greater than expected drop in residual values.	• We regularly review and re-set residual values in respect of new leasing quotes and contracts. • We limit concentration of residual values by manufacturer, model, type, and contractual lease maturity. • We utilise a variety of disposal routes to optimise remarketing proceeds. • We periodically adjust fixed asset depreciation rates correctly to reflect and absorb updated assessments of prospective future values, relative to the value assumed and booked at the inception of the lease.

Principal risks & uncertainties

Inherent Conduct Risk

Risk	Mitigants
We fail to deliver fair outcomes to our customers	• In addition to our risk management governance, we monitor the delivery of fair customer outcomes through a dedicated Customer Experience Committee. • We conduct root cause analysis for customer complaints. • We have control testing, assurance and oversight plans across all three lines of defence to address key conduct risks. • We have in place a pan-organisation wide programme of compulsory training. • We undertake regular and focussed training of our customer-facing colleagues. • We operate a Quality Assurance programme within our customer facing business areas.
We do not comply with relevant regulation and rules, including consumer credit and privacy regulation	• We employ experienced and skilled regulatory risk professionals. • We have processes for review and assessment of new and emerging rules, regulations and industry best practices. • We undertake regular 2nd line risk-based monitoring reviews. • We operate a Quality Assurance programme within our business areas. • We have open and transparent dialogue with our regulators.

Principal risks & uncertainties

Inherent Operational Risk

Risk	Mitigants
We are subject to a major systems failure	• We have in place real-time system monitoring to detect performance issues. • We have in place perimeter firewalls and security controls. • We employ a dedicated and suitably skilled IT support team. • We undertake formal change management processes that include robust testing. • We have robust Business Continuity Planning and IT Disaster Recovery plans in place. • We undertake regular audits of IT controls.
We are subject to significant fraud losses including cybercrime	• We have in place real-time system monitoring to detect system compromises. • We operate perimeter firewalls and security controls in place. • We deploy strict identity validation checks. • We deploy dedicated device identification software and fraud detection rules. • We employ dedicated and suitably skilled Information Security and Financial Crime prevention support teams. • We have control testing, assurance and oversight plans across all three lines of defence to address key financial crime risks.

Principal risks & uncertainties

Risk Management Framework
In order to manage the risks we face, including these principal risks and uncertainties, HCUK has a clear risk management framework, maintained and developed by the Second Line of Defence Risk & Compliance team led by the Chief Risk Officer, appointed in March 2018. The risk management framework is overseen by the Board with certain responsibilities delegated to the Board's Audit & Risk Committee.

Key elements of that framework include:

Risk Governance - A clear model for effective Board and Executive level governance of the reporting, escalation and management of risk. Each 1st Line Business Unit and Central Function has a Risk Committee or equivalent reporting to an Executive Risk Committee (the most senior Executive level risk committee), which in turn reports to the Board Audit & Risk Committee. Additional oversight of risks takes place at the following 2nd Line Committees, which also report to the Executive Risk Committee - for Conduct & Operational Risks: the Operational Risk and Compliance Committee; for Financial Risks: the Credit Risk Committee and Treasury Committee.

Relevant management information designed to allow for the effective management of risks within their remit is supplied to the various Committees. A description of the composition and operation of the Board and its committees can be found within the Corporate Governance section on page 21.

A '3 lines of defence model' providing clear segregation of responsibilities between the 1st Line of Defence (Business Units and Central Functions with the primary responsibility for identifying, assessing and mitigating risks within their sphere of responsibility and the maintenance of quality); the 2nd Line of Defence (whose primary responsibility is the development and maintenance of the Risk Management Framework and the provision of oversight, advice and challenge to 1st Line areas); and the 3rd Line of Defence (Internal Audit, which is tasked with providing assurance to the Board on the overall effectiveness of the 1st and 2nd Lines of Defence and the overall robustness of internal controls throughout the organisation).

Risk Culture, Awareness and Training - A range of mechanisms are in place to promote and reinforce the importance of risk management and the maintenance of high quality customer outcomes throughout HCUK.

Policy Framework - A clear set of policy statements, standards and supporting processes and procedures to articulate to staff and other stakeholders how we manage risks across our risk categories.

Risk Appetite Framework - Formalised quantitative and qualitative statements and measures approved by the Board designed to articulate the risks that HCUK will and will not accept in achieving its strategy.

Risk Categories - A library defining the hierarchy from high level categories down to more granular risk types that HCUK is exposed to.

Risk Processes - Processes designed to document and manage key risks that may arise using consistent risk assessment and evaluation techniques including Incident Management Protocols and Disaster Recovery and Business Continuity Plans.

Assurance and Oversight Plans - Each 1st Line of Defence Business Unit and Central Function undertakes various control and assurance activity. The Risk & Compliance team (2nd Line of Defence) has a Board Audit & Risk Committee approved Compliance Monitoring and Risk Oversight Plan. The Internal Audit function (3rd Line of Defence) has a Board Audit & Risk Committee approved Assurance Plan.

Corporate Social Responsibility

Hitachi Capital (UK) PLC's Corporate Social Responsibility (CSR) policy derives from and complements the wider efforts currently being undertaken by our parent company; Hitachi Capital Corporation. At an international level, Hitachi Capital has set up a CSR Promotion Committee to lead the implementation of a consistent framework for CSR across the Hitachi Capital Group.

Our corporate culture is built on our values of sincerity, harmony and pioneering spirit. The Board considers that social responsibility is core to our vision of bringing the trusted brand of financial services in the UK and Europe and to our mission of exceptional people providing outstanding customer experiences today.

Customers
Over one million customers now rely on us every day to provide suitable financial solutions to realise their ambitions. Delivering fair outcomes for customers is central to what we do. Our corporate strategy reflects the demands and requirements of the broad customer base held across our five divisions. It is shaped by listening to what our customers tell us, analysis of trends, and the actions we take to implement improvements.

Key Performance Indicators (KPIs) are in place to monitor performance in each department that has direct contact with our customers. Our KPIs monitor a range of areas including the type of issues raised, speed of query resolution; loan application acceptances, declines and referrals by channel; comments and queries via social media channels and Feefo/Touchpoint, to monitor and respond to all feedback. In the June 2017 ICS UK Customer Satisfaction Index, based on a survey of 10,000 customers, we scored 94 points (out of 100), putting us well above the UK national average of 78.2 - underlining the importance the business places on delivering excellent customer service.

Representatives from each of the business units which serve consumers meet regularly in our Customer Experience Committee, to discuss any issues and share best practice around the business to ensure we're treating our customers fairly and consistently across the Group.

Employees
With over 1,200 employees, we are committed to investing in our people and rewarding their passion and enthusiasm. It is our exceptional people who provide outstanding customer experiences, enabling us to record strong financial performance throughout the year. We have a culture of openness, listening and responding to the views of our employees. During the year, we instigated employee pulse surveys to measure engagement across the Company. A survey of all employees undertaken during the year showed that 89% would recommend Hitachi Capital (UK) PLC as a great place to work, a result that we are immensely proud of. Additional pulse surveys are issued to new employees on completion of 3 months and 6 months service to measure their engagement and enable us to better support their integration into the Company. Underpinning our people strategy is the commitment to ensuring that our compensation and benefit packages continue to remain competitive relative to market and that we provide all our employees with an inclusive working environment conducive to them achieving their maximum potential.

At Hitachi Capital (UK) PLC, we operate an equal opportunities policy and oppose 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 or maternity. In April 2018, we reported a mean gender pay gap in hourly pay of 33.5% and a median gender pay gap in hourly pay of 34.1% which reflected the underlying workforce demographics of our Company. Whilst these gaps are broadly in line with the financial services industry overall, we are committed to working towards addressing our gender pay gap and are already taking proactive steps in this regard. These include the review of our recruitment practices to ensure we have a diversified shortlist for all senior level positions, the expansion of our Mentoring Circles Programme and an active industry role in promoting the profile of women in business. Our full Gender Pay Gap report is available to read on our website: https://www.hitachicapital.co.uk/media/1576/gender-pay-gap-report-2017.pdf.

Hitachi Capital (UK) PLC

Group Strategic Report (continued)

Corporate Social Responsibility

Community
We are committed to conducting business ethically and to ensuring that the risk of slavery and human trafficking taking place within our business or our supply chain is mitigated. The Group's statutory statement under the Modern Slavery Act is published on our website.

Our aim is to be a good corporate citizen and play a full and active role in our various local communities, make contributions to a range of charitable organisations, and work towards mutual benefit from our business success. We also encourage employees to maximise their potential and help others along the way. During the period we donated well over £200,000 to charity via matched funding and corporate donations. Staff are allowed one day a year to volunteer for a charitable cause, and this is actively encouraged by the business at each of its sites.

Environment
Hitachi Capital (UK) PLC's environmental policies are centred on a commitment to reducing energy consumption, preventing pollution and promoting awareness amongst our employees, and ensuring compliance with compulsory environmental laws, such as ISO 14001 standards.

We aim to ensure that Hitachi Capital (UK) PLC is at the forefront of improving environmental practices. We are already helping to deliver a lasting impact on our environment, by reducing the carbon footprint across our premises by 25% over the last four years, further demonstrating our commitment to local communities.

We continue to pioneer new technologies for mobility with our major vehicle fleet customers to help them navigate through rapidly changing technology.

These policies provide the opportunity to take bolder steps; improving reporting on CO2 emissions and finding ways to become a more environmentally- friendly company in the future.

By order of the Board.

R. Gordon
Chief Executive Officer
28 June 2018

Hitachi Capital (UK) PLC

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 continues to review and refine its corporate governance structure as it works towards implementation of the FCA's Senior Managers & Certification Regime, which will become applicable to the Company in 2019.

Board of Directors
The Board is chaired by Guy Munnoch (defined as the "Director in the Chair" under the Company's Articles of Association) and comprises the Deputy Chair and Senior Independent Director, Alan Hughes, the Chief Executive Officer, Robert Gordon, and three other non-executive directors, Anne Whitaker, Yoshikazu Ohashi and Hiroyuki Fukuro.

Mr. Ohashi and Mr.Fukuro hold executive positions with the Company's sole shareholder, Hitachi Capital Corporation. Excluding the Director in the Chair, the Board therefore has two non-executive directors, Ms. 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 to account.

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

Executive Committee
The Executive 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. Ms. Whitaker was appointed as chair of the committee by the Board, which considers her to be independent and to have competence in both accounting and auditing as required by the Disclosure and Transparency Rules.

The other members of the committee are Alan Hughes, Guy Munnoch and Hiroyuki Fukuro. 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 the Board considers that he was independent on appointment and continues to be independent, the Board believes it to be appropriate that Mr. Munnoch is a member of the Audit and Risk Committee.

The Board therefore also considers that a majority of members of the committee are independent and that the committee as a whole has competence relevant to the sector in which it is operating.

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

The committee normally meets immediately before each Board meeting, including on key dates in the financial reporting and audit cycle, and otherwise as necessary. The statutory auditor attends 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 Chief Risk Officer and the Head of Internal Audit, also attend meetings at the invitation of the committee. The committee meets separately with the statutory auditor 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 financial statements, and reviewing the effectiveness of the Group's internal control and risk management systems and the work of its internal audit function. The committee reviews the findings of the Group's statutory auditor, keeps under review its independence and objectivity, the value for money of the audit, and the appropriateness and cost-effectiveness of any non-audit services it provides. The committee satisfies itself that any safeguards required by ethical guidance regarding the provision of non-audit services are implemented.

The committee reports to the Board on the outcome of the statutory audit and explains how the statutory auditor and the committee contribute to the process. The committee is responsible for the procedure for selecting the statutory auditor and for making recommendations on its appointment.

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 Remuneration Committee is chaired by Alan Hughes. Its other members are Guy Munnoch, Yoshikazu Ohashi and Anne Whitaker. The role of the 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, for approval by the Board and the shareholder, the design of long term incentive plans, bonus schemes and commission schemes operated by the Group. In carrying out its duties, the committee consults other committees of the Board, and the shareholder, as appropriate, and obtains professional advice to the extent it considers necessary.

Nomination Committee
The Nomination Committee is chaired by Guy Munnoch, its other members being Robert Gordon, Alan Hughes, Yoshikazu Ohashi and Anne Whitaker. The purpose of the 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. The committee makes recommendations to the Board on various matters, including succession plans, re-appointment of directors and membership of committees. In carrying out its duties, the committee consults other committees of the Board, and the shareholder, as appropriate, and obtains professional advice to the extent it considers necessary.

Disclosure Committee
Having consulted the Company's parent company (Hitachi Capital Corporation) and the trustees of the Group's pension scheme, the Board resolved that this committee was redundant and it was disbanded during the year ended 31 March 2018.

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. In relation to the financial reporting process, 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 2018 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 Executive Risk Committee, is responsible for coordinating this process and for making recommendations to the Board. Further information about the Group's risk management framework is set out in the Group Strategic Report under the heading Principal Risks and Uncertainties on page 13.

The Group has an Internal Audit Function, which has strengthened during the year, thereby enhancing its ability to provide assurance in respect of the overall effectiveness of the governance of the Group, including the risk and control framework. In addition, there are regular reviews of key areas of risk by the internal audit teams of 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 statutory 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 2018, the Group complied with the J-SOX legislation to the extent it is relevant to the Group, as a subsidiary of its parent, 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
28 June 2018

Directors' Report

The Board of Directors present their annual report and audited financial statements for the year ended 31 March 2018 for Hitachi Capital (UK) PLC (registered company number 1630491).

Results and Dividends
The results of the Group for the year ended 31 March 2018 are set out in the consolidated income statement on page 40. No interim dividend was paid during the year (2017: £nil). The directors are proposing a final dividend of approximately 6.8p (2017: nil) per share totalling £30.0m (2017: £nil). This dividend has not been accrued in the statement of financial position. Further details regarding the dividend are set out in note 20 to the financial statements.

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

Outlook
The Group's future outlook is detailed in the Group Strategic Report on pages 4 to 20.

Employees
The Board is conscious that the Group's ability to succeed is driven by the need to attract, develop and retain suitable 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. The CEO holds regular 'town hall' meetings across the various sites, which are frequently filmed and featured on the intranet for ease of access to the employee community, and regular team and one to one meetings are encouraged.

During the year, the Group has maintained the arrangements aimed at ensuring that employees' views can be taken into account in making decisions which are likely to affect their interests. During the year, the Group instigated employee 'pulse' surveys to measure engagement across the Group. Analysis is available after each survey and is shared with the Executive Committee and the Board. More information on employee surveys is provided in the Corporate Social Responsibility section of the Group Strategic Report on page 19. Employee representatives are elected as and when necessary to meet the Group's consultation requirements.

The Group operates an annual bonus scheme for all levels of staff 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.

The Group operates an equal opportunities policy and opposes all forms of unlawful discrimination. 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 eight 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 of the Group
The directors who served during the year and to the date of this report were as follows:
H. Fukuro
R. Gordon
A. Hughes
G. Munnoch
Y. Ohashi
A. Whitaker

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 2018 AGM and, being eligible to be re-appointed, will offer themselves for re-appointment at that meeting.

Disclosure of information to the auditor
The directors who were members of the Board at the time of approving the Director's Report are listed above. Having made enquiries of fellow Directors and of the Group's auditor, each of these directors confirms that:
• to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's auditor is unaware; and
• each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditor is aware of that information.

Statement of Directors' responsibilities
The directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis. 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 Group and Company and of the profit or loss of the Group and Company for that year. In preparing these financial statements the directors are required to:
• select suitable accounting policies in accordance with International Accounting Standard (IAS) 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
• present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
• provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance; and
• state that the Group and Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

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

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that comply with that law and those regulations.

Directors' liabilities

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 2018 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 4 . The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Strategic Report, the financial statements and the related notes starting on page 40. 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 price risk, credit risk, liquidity risk and cash flow 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.

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 28 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. These are detailed above and in note to the financial statements.

Directors' Report
(continued)

Branches
Details of the Company's branches are set out in the Group Strategic Report starting on page 4.

Auditors
In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as statutory auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Corporate Governance Statement
The corporate governance statement is on pages 21 to 23 of this annual report. It includes a description of the main features of the Group's internal control and risk management systems in relation to the financial reporting process.

By order of the Board.

J.N.M. Sims
Company Secretary
28 June 2018

Hitachi Capital (UK) PLC

Independent Auditor's Report
for the Year Ended 31 March 2018

Opinion

In our opinion:

► Hitachi Capital (UK) PLC's group financial statements and parent company financial statements (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 2018 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 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, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Hitachi Capital (UK) PLC which comprise:

Group	Parent company
Consolidated statement of financial position as at 31 March 2018	Statement of financial position as at 31 March 2018
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 29 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 29 to the financial statements, including a summary of significant accounting policies	

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 to the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
• the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
• the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Estimation of Consumer Credit Act (CCA) compliance provisions in the Consumer Finance business segment • Impairment of loans and receivables in the Consumer Finance business segment • Determination of residual values (RV) of leased assets in the Vehicle Solutions business segment • Hedge accounting adjustments for micro fair value cross-currency hedges • Revenue recognition from loss pool contracts in the Consumer Finance business segment
Audit scope	• We performed an audit of the complete financial information of Hitachi Capital (UK) PLC as at 31 March 2018. The group had one dormant subsidiary (component), and one subsidiary (component) which was sold during the year. Both components were immaterial to the group and accounted for 0.6% of profit before tax and 1.6% of revenue, therefore only limited audit procedures were performed in relation to the components.
Materiality	• Overall group materiality of £5.8m which represents 5% of profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Estimation of CCA compliance provisions in the Consumer Finance business segment £18.9 million (2017: £17.2 million) (provisions for customer claims) Refer to Accounting policies (page 69); and Note 21 of the Consolidated Financial Statements (pages 99-100) CCA compliance provisions reflect the directors' estimates of the expected costs to be incurred as a result of customer claims connected to failed retailers, or compensation to customers for non-compliance with the Consumer Credit Act. They are based on relevant assumptions related to the circumstances of each scenario. Consequently, there is a significant level of subjectivity and uncertainty associated with these estimates.	We gained an understanding of the key controls in respect of the process for determining CCA compliance provisions in the Consumer Finance business segment. We examined the models used by the directors to determine a best estimate of likely costs in relation to CCA compliance claims. This included assessing the appropriateness of assumptions applied, including the probability of failure and likely exposure in the event of failure for those retailers deemed to be at risk. In evaluating the directors' assumptions, we performed an analysis of the company's historical loss experience and the accuracy of previous estimates compared to actual losses. We also tested a sample of provisions designated as utilised to validate that these exclude reversals of provisions, and only included settlement of claims. We traced the data inputs to the provision models to supporting documentation and source systems, and checked the clerical accuracy of provision calculation models. As it related to broader conduct risk and cases of customer redress, we involved EY conduct risk specialists to assess the reasonableness of the directors' methodology and assumptions used in the calculation of amounts due to customers.	We communicated to the Audit and Risk Committee that provisions for CCA compliance were reasonably estimated. We also concluded that the disclosures presented were in compliance with IFRS, and describe the uncertainties and risks associated with determining the provisions and the sensitivity of the provisions to changes in key assumptions. We assessed the calculations and related judgements, including assessing claim rates and costs as compared to historical trends, for a sample of retailers and provisions, and did not identify any material differences to the provisions determined by the directors.

Independent Auditor's Report
for the Year Ended 31 March 2018 (continued)

Impairment of loans and receivables in the Consumer Finance business segment £14.2 million (2017: £16.9 million) (bad debt impairment charge in Consumer Finance) Refer to Accounting policies (pages 56-57); and Notes 4 and 11 of the Consolidated Financial Statements (pages 70-72, 84-90) Impairment of loans and receivables is subjective and reliant on various indicators of customers' ability to repay, including external credit risk ratings and statistical models. Consumer Finance receivables are unsecured, and impairment losses can be material in aggregate. Judgement is required in determining probabilities of default, and therefore this is a key audit matter.	We tested controls over impairment calculations and the generation of portfolio data used in these calculations. We determined that we could place reliance on these controls for the purposes of our audit. We tested the impairment provision model by examining the logic of the model calculations, the accuracy of data inputs and the appropriateness of key assumptions and loan ratings used in the model. We evaluated changes made to calculation methodologies and assessed whether those changes were in line with generally accepted accounting principles and were reasonable as a response to changes in the business. We evaluated the completeness of exposures assessed for impairment by the directors. We performed analytical procedures to establish directional consistency between provisions and credit quality of the exposures.	We communicated to the Audit and Risk Committee that the impairment models, calculations and assumptions employed were reasonable as at 31 March 2018 and that these resulted in impairment provision that were materially correct. We also concluded that the disclosures presented were in compliance with IFRSs. We assessed and challenged the calculations and judgements with reference to historical experience and testing of the underlying data,and did not identify any material differences to the provisions determined by the directors.

Independent Auditor's Report
for the Year Ended 31 March 2018 (continued)

Determination of residual values (RV) of leased assets in the Vehicle Solutions business segment £152.9 million (2017: £145 million) (depreciation and impairment of operating leased assets in Vehicle Solutions) Refer to the Accounting policies (page 54); and Notes 4 and 9 of the Consolidated Financial Statements (pages 70-72, 79-81) Operating lease residual value estimates impact depreciation rates applied and take into account factors affecting valuations such as wear and tear and reducing market prices for second hand cars. Any estimates are the result of various assumptions, require judgement, and can vary from period to period.	We tested key controls operating in relation to the determination of residual values of leased assets. We determined that we could place reliance on these controls for the purposes of our audit. We examined the logic of the model calculations, the accuracy of data inputs, including the consideration of externally available prices, and the appropriateness of key assumptions used in the model. We tested the adjustments and assumptions made by the directors in determining the useful life and rate of depreciation of the leased assets over their useful life. We involved in-house valuation specialists to gain comfort over the methodology applied and to challenge the assumptions applied to the valuations. In evaluating the directors' assumptions, we performed back testing of assumptions and validated profits/losses made on sales to assess the accuracy of past assessments.	We communicated to the Audit and Risk Committee that the residual values calculated in respect of operating leased assets in the Vehicle Solutions business segment were reasonable as at 31 March 2018, and that related adjustments to depreciation were recorded in line with IFRS. We challenged the assumptions applied by the directors, communicated that the assumptions made by the directors were reasonable in the context of the leased portfolio and current market values.

Hedge accounting adjustments for micro fair value cross currency hedges £11.6 million (2017: £0.8 million) (cross currency swap contracts) Refer to Accounting policies (pages 58-60); and Note 13 of the Consolidated Financial Statements (pages 91-92) The valuation of financial instruments and designation of hedge relationships is inherently complex. The inherent complexity involved in the valuation of liabilities hedged by cross currency swaps, and also incorrect valuation of these swaps, could materially impact recorded hedge ineffectiveness, if incorrect.	We tested controls over the valuation of cross currency derivatives and fair value hedge accounting. We determined that we could place reliance on these controls for the purposes of our audit. To test the valuation of cross currency swaps, we involved in-house valuation specialists to assist in assessing the directors' valuation methodology and to perform an independent valuation of a sample of derivatives and related hedged items. We also tested the inputs to the hedge effectiveness testing, and the process for the determination of hedge effectiveness, and assessed the appropriateness of conclusions including recorded ineffectiveness. We involved in-house hedge accounting specialists to re-perform tests of hedge effectiveness for a sample of positions.	We communicated to the Audit and Risk Committee that the valuation of cross currency derivatives and recording of hedge accounting was reasonable as at 31 March 2018. We concluded that the hedge documentation requirements under IAS 39 were met, and that hedge relationships tested were found to be effective.

Independent Auditor's Report
for the Year Ended 31 March 2018 (continued)

Revenue recognition from loss pool contracts in the Consumer Finance business segment £86.3 million (2017: £84.9 million) (interest income in Consumer Finance); £65.9 million (2017: £62.8 million) (retailer liability) Refer to Accounting policies (pages 50, 58); and Notes 4 and 25 of the Consolidated Financial Statements (pages 70-72,108) Contracts with retailers contain bespoke terms that govern the levels of revenue earned by the company, and amounts collected from customers but due to retailers if they are not absorbed by subsequent losses (Retailer Liability). These contracts require manual inputs to systems and accounting reconciliations, which increases the risk of fraud or error. As these contracts affect the group's revenue, we determined this risk to be a key audit matter.	We tested the key controls over setting up of loss pool contracts, the recording of retailer liabilities, and the recognition of income on these deferred amounts. We determined that we could place reliance on these controls for the purposes of our audit. We tested a sample of transactions to verify that loss pool rates have been properly set up within the source system and were recorded in line with contracts with retailers. We also tested a sample of agreements where income had been recognised to assess whether write offs and recoveries were appropriate. For loss pool pay outs, we agreed the amounts paid to the retailers to the underlying agreements and bank statements.	We communicated to the Audit and Risk Committee that the retailer liability / loss pool balance is fairly stated as at 31 March 2018 and that related revenue has been appropriately recorded. We also communicated that we challenged the calculation methodology, considering provisions for loan losses across loss-pooled and non loss-pooled agreements, including challenging where different approaches were applied, and noted no material impact on the provision balance.

An overview of the scope of our audit

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed. All work was performed by the UK audit team, who performed an audit of the complete financial information for the Group, with limited procedures performed on immaterial components.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group and parent company to be £5.8 million (2017: £5.9 million), which is 5% of profit before tax. We believe that profit before tax provides us with the most appropriate basis for calculating materiality as HCUK is a profitable entity and the decisions of the users of the financial statements is most affected by profitability of the group.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £4.4 million (2017: £4.4 million). We have set performance materiality at this percentage due to the strength of the control environment and a lower expectation of material misstatements in the financial statements.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.3 million (2017: £0.3 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1-27, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

• the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

• the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

• adequate accounting records have not been kept 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 to be audited are not in agreement with the accounting records and returns; or
• certain disclosures of directors' remuneration specified by law are not made; or
• we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on pages 25-26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our audit approach in respect of irregularities, including fraud, was as follows:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant were the regulations, licence conditions and supervisory requirements of the Financial Conduct Authority ('FCA').
• We understood how the group complies with these legal and regulatory frameworks by making enquiries of the directors, other management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the group and UK regulatory bodies; attended meetings of the Audit and Risk Committee, reviewed minutes of the Board, Audit and Risk Committee and Operational Risk Committee; and gained an understanding of the group's approach to governance, demonstrated by the Board's approval of the group's governance framework and the Board's review of the internal control processes.
• We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur, by considering the controls that the group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence the directors or other management to manage earnings or influence the perceptions of investors.
• Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations identified in the paragraphs above. Our procedures involved inquiries of legal counsel, the directors and other management, internal audit, and focused testing, as referred to in the Key Audit Matters section above.
• The group operates in a regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

Other matters we are required to address

• We were appointed by the company in 2006 to audit the financial statements of the group and parent company for the year ending 31 March 2007 and subsequent financial periods. Following a competitive tender process, we were reappointed as auditor for the group and parent company for the year ending 31 March 2018 and subsequent financial periods. Our total uninterrupted period of engagement is 12 years, covering periods from our initial appointment through to the year ending 31 March 2018.
• The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
• The audit opinion is consistent with our additional report to the Audit and Risk Committee.

Use of our report

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

Ernst & Young LLP

Steven Robb (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
28 June 2018

Notes:

1. The maintenance and integrity of the Hitachi Capital (UK) PLC web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Hitachi Capital (UK) PLC

Consolidated Income Statement for the Year Ended 31 March 2018

	Note	2018 £m	2017 £m
Revenue	5	624.8	608.9
Finance costs		(51.4)	(49.6)
Depreciation and impairment of operating leased assets	9	(160.2)	(153.1)
Maintenance expense on operating leased vehicles		(30.0)	(29.4)
Other cost of sales	6	(132.7)	(131.0)
Cost of sales		(374.3)	(363.1)
Gross profit		250.5	245.8
Bad debts impairment charge		(16.6)	(18.1)
Administrative expenses	7	(117.8)	(119.4)
Operating profit		116.1	108.3
Fair value gain on derivative financial instruments	13	0.3	0.4
Profit before tax		116.4	108.7
Income tax expense	8	(23.5)	(22.8)
Profit after tax		92.9	85.9

The notes on pages 48 to 125 form an integral part of these financial statements.

Hitachi Capital (UK) PLC

Consolidated Statement of Comprehensive Income for the Year Ended 31 March 2018

	Note	2018 £m	2017 £m
Profit for the year		92.9	85.9
Other comprehensive income to be reclassified to profit or loss in subsequent period			
Gain on cash flow hedges taken to cash flow hedge reserve		14.9	3.9
Income tax effect	8	(2.9)	(0.7)
		12.0	3.2
Foreign currency translation gains/(losses) before tax		(0.2)	(0.1)
		(0.2)	(0.1)
Net other comprehensive income to be reclassified to profit or loss in subsequent period		11.8	3.1
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of defined benefit pension scheme	24	4.5	(7.2)
Income tax effect	8	(0.9)	1.4
		3.6	(5.8)
Net other comprehensive income not to be reclassified to profit or loss in subsequent period		3.6	(5.8)
Other comprehensive income for the year, net of tax		15.4	(2.7)
Total comprehensive income for the year, net of tax		108.3	83.2
Attributable to:			
Equity holders of the parent		108.3	83.2
Total comprehensive income for the year, net of tax		108.3	83.2

Hitachi Capital (UK) PLC

Statement of Financial Position - Consolidated and Company as at 31 March 2018

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Non-current assets					
Intangible assets	10	25.2	17.0	25.2	16.7
Investments in subsidiaries	3	-	-	1.7	3.0
Property, plant and equipment under operating lease	9	818.3	759.7	818.3	730.4
Other property, plant and equipment	9	8.9	13.5	8.9	10.5
Loans and receivables	11	2,456.0	2,014.4	2,456.0	2,009.6
Derivative financial instruments	13	25.9	60.8	25.9	60.8
Deferred tax assets	8	7.5	8.8	7.5	8.2
Retirement benefit asset	24	3.4	-	3.4	-
		3,345.2	2,874.2	3,346.9	2,839.2
Assets					
Current assets					
Loans and Receivables	11	1,636.5	1,367.4	1,636.5	1,363.0
Derivative financial instruments	13	18.0	100.2	18.0	100.2
Inventories	16	20.2	19.7	20.2	18.8
Trade and other receivables	17	64.7	70.9	64.6	65.4
Cash and cash equivalents	18	6.2	2.3	6.2	1.1
		1,745.6	1,560.5	1,745.5	1,548.5
Total assets		5,090.8	4,434.7	5,092.4	4,387.7
Equity and liabilities					
Equity					
Share capital	19	110.7	110.7	110.7	110.7
Share premium		15.6	15.6	15.6	15.6
Retained earnings		465.8	372.9	465.9	371.2
Other reserves		(1.5)	(16.9)	(1.5)	(17.0)
Equity attributable to owners of the company		590.6	482.3	590.7	480.5
Non-current liabilities					
Interest bearing loans and borrowings	14	2,761.6	2,213.2	2,761.6	2,197.0
Derivative financial instruments	13	49.4	9.3	49.4	9.3
Trade and other payables	25	75.6	94.7	75.6	94.7
Provisions	21	1.4	1.4	1.4	1.4
Retirement benefit obligations	24	-	1.3	-	1.3
		2,888.0	2,319.9	2,888.0	2,303.7

The notes on pages 48 to 125 form an integral part of these financial statements.

Statement of Financial Position - Consolidated and Company as at 31 March 2018 (continued)

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Current liabilities					
Bank overdrafts	18	7.2	3.5	7.2	3.5
Interest bearing loans and borrowings	14	1,392.0	1,419.5	1,392.0	1,390.3
Derivative financial instruments	13	3.3	13.4	3.3	13.4
Current tax liability		14.3	18.4	14.3	18.7
Provisions - current	21	19.5	18.4	19.5	18.4
Trade and other payables	25	175.9	159.3	177.4	159.2
		1,612.2	1,632.5	1,613.7	1,603.5
Total liabilities		4,500.2	3,952.4	4,501.7	3,907.2
Total equity and liabilities		5,090.8	4,434.7	5,092.4	4,387.7

The Company profit for the year was £94.7m (2017: £179.9m)

The financial statements were approved by the board, authorised for issue on 28 June 2018 and signed on its behalf by:

R. Gordon
Chief Executive Officer

Hitachi Capital (UK) PLC

Consolidated Statement of Changes in Equity for the Year Ended 31 March 2018

Group	Note	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 31 March 2016		10.7	15.6	287.0	(14.2)	299.1
Profit for the year		-	-	85.9	-	85.9
Other comprehensive income		-	-	-	(2.7)	(2.7)
Total comprehensive income		-	-	85.9	(2.7)	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
Profit for the year		-	-	92.9	-	92.9
Other comprehensive income		-	-	-	15.4	15.4
Total comprehensive income		-	-	92.9	15.4	108.3
At 31 March 2018		110.7	15.6	465.8	(1.5)	590.6

Hitachi Capital (UK) PLC

Statement of Changes in Equity for the Year Ended 31 March 2018

Company	Note	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Total £m
At 31 March 2016		10.7	15.6	191.3	(14.3)	203.3
Profit for the year		-	-	179.9	-	179.9
Other comprehensive income		-	-	-	(2.7)	(2.7)
Total comprehensive income		-	-	179.9	(2.7)	177.2
Issue of share capital		100.0	-	-	-	100.0
At 31 March 2017		110.7	15.6	371.2	(17.0)	480.5
Profit for the year		-	-	94.7	-	94.7
Other comprehensive income		-	-	-	15.5	15.5
Total comprehensive income		-	-	94.7	15.5	110.2
At 31 March 2018		110.7	15.6	465.9	(1.5)	590.7

The notes on pages 48 to 125 form an integral part of these financial statements.

Hitachi Capital (UK) PLC

Consolidated Statement of Cash Flows for the Year Ended 31 March 2018

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Profit before tax		116.4	108.7	118.0	202.6
Operating activities:					
Non cash adjustment to reconcile profit before tax to net cash flows:					
Depreciation and impairment of property, plant and equipment	9	162.6	156.1	159.3	151.6
Depreciation and impairment of intangible assets	10	1.6	4.3	1.4	4.3
Net (gain)/loss on disposal of operating lease assets		(7.0)	(4.1)	(4.6)	0.4
Net loss on disposal of property plant and equipment		0.1	-	-	-
Net loss on disposal of intangible assets		0.2	-	0.1	-
Fair value gain on derivative financial instruments	13	(0.3)	(0.4)	(0.3)	(0.4)
Net gain on disposal of subsidiary	12	(0.2)	-	(2.2)	-
Defined benefit pension scheme charge to income statement	24	0.3	0.5	0.3	0.5
Net loss on foreign exchange	9	-	(1.5)	-	-
Impairment of investment in subsidiary	3	-	-	-	2.4
		273.7	263.6	272.0	361.4
Working capital adjustments					
Increase in receivables		(731.9)	(300.6)	(719.1)	(286.8)
(Decrease)/increase in payables & provisions		(0.3)	24.3	0.1	(26.4)
Increase in inventories		(1.4)	(8.4)	(1.4)	(8.3)
Cash contributions to defined benefit pension scheme	24	(0.5)	(4.7)	(0.5)	(4.7)
Purchase of operating leased assets	9	(373.6)	(375.9)	(365.6)	(359.2)
Proceeds from sale of operating leased assets	5	128.3	124.0	125.2	118.0
Cash generated from operations		(705.7)	(277.7)	(689.3)	(206.0)
Income taxes paid	8	(30.6)	(24.7)	(29.8)	(24.1)
Net cash flow from operating activities		(736.3)	(302.4)	(719.1)	(230.1)

The notes on pages 48 to 125 form an integral part of these financial statements.

Consolidated Statement of Cash Flows for the Year Ended 31 March 2018 (continued)

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Investing activities					
Purchase of property, plant and equipment (non operating leases)	9	(1.3)	(4.0)	(0.6)	(1.6)
Proceeds from sale of property plant and equipment (non operating leases)		-	0.6	-	-
Purchase of intangible assets	10	(10.0)	(5.2)	(10.0)	(5.2)
Dividends received		-	-	-	(96.2)
Proceeds from disposal of subsidiary	12	3.3	-	3.1	-
Repayment of capital contribution from Hitachi Capital Insurance Europe	3	-	-	-	0.9
Net cash flows from investing activities		(8.0)	(8.6)	(7.5)	(102.1)
Financing activities					
Share Capital issued		-	100.0	-	100.0
Funding received		1,389.7	885.5	1,389.7	868.9
Funding paid		(645.2)	(673.1)	(661.7)	(673.1)
Net cash flows from financing activities	26	744.5	312.4	728.0	295.8
Net increase/(decrease) in cash and bank overdrafts		0.2	1.4	1.4	(36.4)
Cash and bank overdrafts at beginning of the year	18	(1.2)	(2.6)	(2.4)	34.0
Cash and bank overdrafts at end of the year	18	(1.0)	(1.2)	(1.0)	(2.4)
Current assets - cash	18	6.2	2.3	6.2	1.1
Current liabilities - bank overdrafts	18	(7.2)	(3.5)	(7.2)	(3.5)
Cash and bank overdrafts at end of the year		(1.0)	(1.2)	(1.0)	(2.4)

1 Corporate information

The consolidated financial statements of the Group for the year ended 31 March 2018 were authorised for issue by the directors on 28 June 2018. Hitachi Capital (UK) PLC is a public limited company incorporated in the United Kingdom. The address of the registered office is given at the beginning 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 Statement of compliance

The group financial statements have been prepared in accordance with International Financial Reporting Standards and their interpretations adopted by the EU ("adopted IFRS's").

2.2 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 hundred thousand, except when otherwise indicated.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2018. 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 Accounting policies (continued)

2.4 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 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(b) Foreign currency transactions and balances

The presentational currency of the Group and the Company is pound sterling. The functional currency of the Company 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 2.4 (k) and 2.4 (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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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 Inventories
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 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.

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

iv. Fee and commission expenses
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.

(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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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 2.4 (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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(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 Accounting policies (continued)

2.4 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 reduction in value 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 2.4(i).

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(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.

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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

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

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

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

(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 at which estimated future cash payments are discounted to the net carrying amount of the financial liability over the expected life (or a shorter period, where appropriate) of the financial liability. The corresponding interest expense is presented within Finance cost in the income statement for the period.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Retailer Liability

The retailer liability arises through contractual terms with certain retailers whereby a portion of the cash flows financed are deferred and held by the Group to cover possible future losses. These deferred amounts are therefore recorded as liabilities by the Group, as they remain the property of the retailer until either losses arise or each vintage of financing agreements matures. The vintage refers to a group of agreements incepted 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 set off 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.

(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).

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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 comprehensive income on page 41 .

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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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 sales.

(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.

(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:

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

- 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).

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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.

(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 Accounting policies (continued)

2.5 Changes to Standards and Interpretations

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

Standards and amendments which were issued and came into effect during the year

Amendment to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendment requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The Group has provided the information in Note 26.

Amendment to IAS 12 Income taxes: Recognition of deferred tax assets for unrealised losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual Improvement 2014-2016 cycle

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters. Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice. These amendments are not applicable to the Group.

2 Accounting policies (continued)

2.5 Changes to Standards and Interpretations (continued)

Standards issued and but not yet effective

IFRS 9 Financial Instruments
In July 2014, the IASB issued 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. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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 Group plans to adopt the new standard from 1 April 2018 and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group during 2018/19 when the Group will adopt IFRS 9. Overall, the Group expects an increase in impairment loss allowance resulting in a negative impact on equity as discussed below.

(a) Classification and measurement
The Group does not expect any impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

The Group currently holds some non-derivative financial assets at fair value through P&L and the Group has concluded that these meet the criteria for fair value through P&L measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

2 Accounting policies (continued)

2.5 Changes to Standards and Interpretations (continued)

(b) Impairment
IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans, lease and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach on all lease and trade receivables as well as receivables with maturity of <12 months. For all other loans and receivables, the Group will apply the general approach and record expected credit losses on a 12-month basis on performing receivables and lifetime expected losses for receivables with significant credit degradation or those that are credit impaired.

The Group has determined that the increase in loss allowance is expected to be in the range of £7m to £10m with a corresponding decrease in the deferred tax liability at a prevailing rate. This assessment is based on currently available information which is subject to changes arising from further reasonable and supportable information being made available to the Group during 2018/19.

(c) Hedge accounting
The Group will be adopting hedge accounting under IFRS 9 from 1 April 2018. The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 is not expected to have a significant impact on Group's financial statements.

2 Accounting policies (continued)

2.5 Changes to Standards and Interpretations (continued)

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and amended in April 2016, and establishes a single, principles based five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard is effective from periods beginning on or after 1 January 2018,

The new revenue standard will supersede all current revenue recognition requirements under IFRS except IAS 17 Leases and IAS 39 / IFRS 9 Financial Instruments as noted below. The Group plans to adopt the new standard on 1 April 2018 using the modified retrospective method which doesn't require restatement of comparatives.

During the year, the Group performed an impact assessment of IFRS 15 and does not expect significant changes to the income statement.

The Group's existing policies for identification of performance obligations, determination of the transaction price and their allocation to performance obligations are in line with IFRS 15.

A significant portion of Group revenue is recognised under IAS 17 Leases and IAS 39 Financial Instrument (IFRS 9 from 1 April 2018).

IFRS 16 Leases
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 a material impact on the Group as a lessor but during 2018/19, the Group will be assessing the impact as a lessee. The Group does not intend to early adopt IFRS 16 and thereby will only adopt it from 1 April 2019.

IFRS 17 Insurance Contracts
This standard was issued in May 2017 and it is effective for periods beginning on or after 1 January 2021. The standard covers recognition, measurement presentation and disclosures for insurance contracts. The standard applies to all types of insurance contracts and its objective is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers. This standard is not applicable to the Group.

2 Accounting policies (continued)

2.5 Changes to Standards and Interpretations (continued)

Amendment to IFRS 2 Share-based Payment

These amendments were issued in June 2016 and clarify 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.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Group.

2 Accounting policies (continued)

2.6 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.

Fair Value Measurement

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

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

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

The fair value of an asset or a liability is measured, as near as practically possible, using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Any fair value measurements of a non-financial asset take 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

2 Accounting policies (continued)

2.6 Significant Accounting Judgements, Estimates and Assumptions (continued)

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 2.4(i) above.

Impairment of Non-Financial Assets
Discussed in note 2.4(q) above.

Residual values for operating leased assets
Discussed in note 2.4(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 24.

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 or the Group for misrepresentation, breach of contract or customer redress, in accordance with the accounting policy stated in 2.4(n). The Group also recognises customer redress provision for legal or regulatory proceedings. Further details are included in note 21.

3 Investment in Subsidiaries (Company)

	Hitachi Capital Vehicle Solutions Ltd £m	Hitachi Capital Polska Sp. z o.o. £m	Hitachi Capital Insurance Europe Ltd £m	Total £m
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
Disposal of subsidiary	-	(1.3)	-	(1.3)
At 31 March 2018	1.7	-	-	1.7

At 31 March 2017, management determined that due to unfavourable market conditions, the carrying amount of investment in Hitachi Capital Polska Sp. z o.o. 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 was recognised in the Company's income statement.

On 11 October 2017, the Group sold Hitachi Capital Polska Sp. z o.o, a wholly owned subsidiary, to its immediate parent company, Hitachi Capital Corporation. The details can be found in Note 12.

All subsidiaries are wholly owned and directly held by the Company. The registered addresses can be found within Company Information on page 1.

4 Operating segment information

For management purposes, the Group is organised into a corporate centre and five 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:

4 Operating segment information (continued)

Business segment	Principal activities
Consumer Finance (HCCF)	Retail point of sale and personal finance
Vehicle Solutions (HCVS) and Hitachi Capital Polska Sp. z o.o. (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
Corporate	Head office including group treasury activities

No revenues earned from transactions with a single external customer amount to 10% or more of the Group's revenues in either the 2018 or 2017 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.

Year ended 31 March 2018	HCCF £m	HCVS & HCPL £m	HCBF £m	HCIF £m	Corporate £m	Group £m
Revenue						
Interest income	86.3	-	-	9.8	0.1	96.2
Other external income	78.8	379.2	69.7	(0.1)	1.0	528.6
Total revenue	165.1	379.2	69.7	9.7	1.1	624.8
Other allocations						
Finance costs	(26.5)	(10.1)	(14.0)	(0.8)	-	(51.4)
Depreciation & impairment of operating lease assets	-	(152.9)	(7.3)	-	-	(160.2)
Bad debt impairment	(14.2)	(0.8)	(1.2)	(0.1)	(0.3)	(16.6)
Other	(51.6)	(193.3)	(25.8)	(10.9)	1.4	(280.2)
Profit/(loss) before tax	72.8	22.1	21.4	(2.1)	2.2	116.4
Income tax	(14.2)	(4.8)	(4.2)	0.4	(0.7)	(23.5)
Profit/(loss) after tax	58.6	17.3	17.2	(1.7)	1.5	92.9
Assets	2,831.3	882.0	1,074.7	178.3	124.5	5,090.8
Liabilities	2,491.9	840.9	1,004.1	170.4	(7.1)	4,500.2
Other disclosures:						
Capital expenditures	-	366.5	7.9	-	10.5	384.9
Equity and Reserves	-	-	-	-	590.6	590.6

4 Operating segment information (continued)

Year ended 31 March 2017	HCCF £m	HCVS & HCPL £m	HCBF £m	HCIF £m	Corporate £m	Group £m
Revenue						
Interest income	84.9	-	-	10.0	-	94.9
Other external income	66.5	382.5	65.0	-	-	514.0
Total revenue	151.4	382.5	65.0	10.0	-	608.9
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)	-	(1.2)	-	-	(18.1)
Other	(47.0)	(200.3)	(22.1)	(10.0)	-	(279.4)
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 expenditures	0.1	372.2	6.2	0.5	6.1	385.1
Equity and Reserves	-	24.5	-	-	457.8	482.3

5 Revenue

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

	2018 £m	2017 £m
Interest income	96.2	94.9
Finance lease income	52.5	51.1
Operating lease rental income	245.5	239.7
Sale of operating lease assets	128.3	124.0
Fee income related to the activities above	97.4	96.5
Other income	4.9	2.7
Total revenue	624.8	608.9

In 2018, other income includes £0.2m profit on disposal of Hitachi Capital Polska Sp. z o.o., a wholly owned subsidiary of the Group, to its immediate parent company, Hitachi Capital Corporation.

6 Other cost of sales

	Note	2018 £m	2017 £m
Commission expense		3.0	2.5
Customer claim charges and provisions	21	3.4	(0.4)
Operating lease assets net book value		125.9	125.4
Other expenses		0.4	3.5
Total other cost of sales		132.7	131.0

7 Administrative expenses and Auditor's remuneration

	2018 £m	2017 £m
Wages and salaries	46.3	41.7
Social security costs	6.9	5.8
Pension and other post-employment benefit costs	2.5	2.3
Other employee expense	16.6	17.5
Premises and office	8.6	9.2
IT and telephony	11.4	14.0
Marketing	10.3	11.0
Professional services and other	14.2	13.9
Impairment of goodwill	-	3.0
Auditor's remuneration		
Audit of the financial statements	0.9	0.9
Other assurance services	0.1	0.1
Total administration expenses	117.8	119.4

The number of full time equivalent employees at 31 March 2018 was 1,238 (2017: 1,214), which included permanent and temporary staff as well as those on fixed term contracts. Of this, HCUK Company had 1,238 (2017: 1,168).

The Group employed an average of 1,196 (2017: 1,176) employees during the year. Of this, HCUK Company had 1,152 (2017: 1,132).

In 2017, an annual assessment found the goodwill in the Vehicle Solutions division to be impaired by £3.0m in line with the Group's accounting policy for the impairment of goodwill (note 2.4(a)). This cost was included in administration expenses.

8 Income tax

	2018 £m	2017 £m
Current income tax		
Charge for the year	27.3	28.3
UK corporation tax adjustment to prior periods	(0.9)	2.0
	26.4	30.3
Deferred taxation		
Origination and reversal of temporary differences in the current year	(4.1)	(5.5)
Adjustment in respect of prior years	1.2	(2.0)
Total	(2.9)	(7.5)
Tax charge on profit	23.5	22.8

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 2018, there were net prior year adjustments of £0.3m (2017: £nil).

The effective tax rate on profit before tax for the year was 20.2% (2017: 21.0%) compared to the standard rate of corporation tax of 19% (2017: 19%).

The differences are reconciled below:

	2018 £m	2017 £m
Profit before tax	116.4	108.7
Tax on profit at UK corporation tax rate of 19% (2017: 20%)	22.1	21.7
Increase (decrease) in current tax from adjustment for prior periods	0.3	-
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	0.1	0.8
Deferred tax expense (credit) relating to changes in tax rates or laws	1.0	0.3
Tax charge	23.5	22.8

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 17% at 31 March 2018. This increased the tax charge in 2018 through the income statement of £1.0m (2017: £0.3m increase).

8 Income tax (continued)

Amounts recognised in other comprehensive income

	2018 Before tax £m	2018 Tax (expense) benefit £m	2018 Net of tax £m
Gain/(loss) on cash flow hedges (net)	14.9	(2.9)	12.0
Foreign currency translation gains/(losses)	(0.2)	-	(0.2)
Remeasurements of post employment benefit obligations	4.5	(0.9)	3.6
	19.2	(3.8)	15.4

	2017 Before tax £m	2017 Tax (expense) benefit £m	2017 Net of tax £m
Gain/(loss) on cash flow hedges (net)	3.9	(0.7)	3.2
Foreign currency translation gains/(losses)	(0.1)	-	(0.1)
Remeasurements of post employment benefit obligations	(7.2)	1.4	(5.8)
	(3.4)	0.7	(2.7)

8 Income tax (continued)

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.

Group

Deferred tax movement during the prior year:

	At 1 April 2016 £m	Recognised in income £m	Recognised in other comprehensive income £m	At 31 March 2017 £m
Accelerated tax depreciation	(2.8)	7.7	-	4.9
Pension benefit obligations	(0.1)	(0.5)	1.4	0.8
Revaluation of cash flow hedges	3.0	-	(0.7)	2.3
Other items	0.5	0.3	-	0.8
Net tax assets/(liabilities)	0.6	7.5	0.7	8.8

Deferred tax movement during the year:

	At 1 April 2017 £m	Recognised in income £m	Recognised in other comprehensive income £m	Recognised in equity £m	At 31 March 2018 £m
Accelerated tax depreciation	4.9	3.0	-	(0.3)	7.6
Pension benefit obligations	0.8	(0.2)	(0.9)	-	(0.3)
Revaluation of cash flow hedges	2.3	-	(2.8)	(0.1)	(0.6)
Other items	0.8	0.1	-	(0.1)	0.8
Net tax assets/(liabilities)	8.8	2.9	(3.7)	(0.5)	7.5

8 Income tax (continued)

Company

Deferred tax movement during the prior year:

	At 1 April 2016 £m	Recognised in income £m	Recognised in other comprehensive income £m	Recognised in equity £m	At 31 March 2017 £m
Accelerated tax depreciation	1.8	7.3	-	(4.6)	4.5
Pension benefit obligations	(0.1)	(0.5)	1.4	-	0.8
Revaluation of cash flow hedges	3.0	-	(0.8)	-	2.2
Other items	0.4	0.3	-	-	0.7
Net tax assets/(liabilities)	5.1	7.1	0.6	(4.6)	8.2

Deferred tax movement during the year:

	At 1 April 2017 £m	Recognised in income £m	Recognised in other comprehensive income £m	At 31 March 2018 £m
Accelerated tax depreciation	4.5	3.0	-	7.5
Pension benefit obligations	0.8	(0.2)	(0.9)	(0.3)
Revaluation of cash flow hedges	2.2	-	(2.8)	(0.6)
Other items	0.7	0.2	-	0.9
Net tax assets/(liabilities)	8.2	3.0	(3.7)	7.5

9 Property, plant and equipment

Group

At 31 March 2018, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £95.5m (2017: £52.0m), 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.

Depreciation expense for the Group of £161.4m (2017: £152.8m) relating to operating leased assets was included in cost of sales. A further impairment release of £1.2m (2017: charge of £0.3m) 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 £2.4m (2017: £3.0m) 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 3.97% (2017: 4.08%).

Disposal of a subsidiary relates to Hitachi Capital Polska Sp. z o.o., a wholly owned subsidiary of the Group, which was sold to its immediate parent company, Hitachi Capital Corporation on 11 October 2017 (Note 12).

9 Property, plant and equipment (continued)

	Land and buildings £m	Motor vehicles £m	Furniture, fittings and equipment £m	Operating leased assets £m	Total £m
Cost					
At 1 April 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)
Foreign exchange movements	-	0.1	(0.1)	1.9	1.9
At 31 March 2017	6.3	3.2	16.4	1,094.5	1,120.4
Additions	-	0.8	0.5	373.6	374.9
Disposals	-	-	(1.0)	(253.6)	(254.6)
Transfers	-	-	(0.1)	-	(0.1)
Disposal of a subsidiary	-	(4.0)	(0.1)	(42.6)	(46.7)
At 31 March 2018	6.3	-	15.7	1,171.9	1,193.9
Accumulated depreciation and impairment					
At 1 April 2016	0.4	0.5	9.0	333.2	343.1
Charge for year	0.1	0.4	2.5	152.8	155.8
Disposals	-	(0.5)	-	(151.9)	(152.4)
Impairment loss	-	-	-	0.3	0.3
Foreign exchange movements	-	-	-	0.4	0.4
At 31 March 2017	0.5	0.4	11.5	334.8	347.2
Charge for the year	0.1	0.1	2.2	161.4	163.8
Disposals	-	-	(1.0)	(132.3)	(133.3)
Impairment release	-	-	-	(1.2)	(1.2)
Transfers	-	-	(0.1)	-	(0.1)
Disposal of a subsidiary	-	(0.5)	(0.1)	(9.1)	(9.7)
At 31 March 2018	0.6	-	12.5	353.6	366.7
Carrying amount					
At 31 March 2017	5.8	2.8	4.9	759.7	773.2
At 31 March 2018	5.7	-	3.2	818.3	827.2

9 Property, plant and equipment (continued)

Company

	Land and buildings £m	Furniture, fittings and equipment £m	Operating leased assets £m	Total £m
Cost				
At 1 April 2016	-	12.1	60.4	72.5
Additions	-	1.6	359.2	360.8
Acquired through business combinations	5.9	2.5	908.2	916.6
Disposals	-	-	(268.8)	(268.8)
At 31 March 2017	5.9	16.2	1,059.0	1,081.1
Additions	-	0.6	365.6	366.2
Disposals	-	(0.9)	(252.3)	(253.2)
Transfers	-	(0.1)	-	(0.1)
At 31 March 2018	5.9	15.8	1,172.3	1,194.0
Accumulated depreciation and impairment				
At 1 April 2016	-	6.8	27.2	34.0
Charge for the year	-	2.5	148.8	151.3
Disposals	-	-	(150.7)	(150.7)
Impairment loss	-	-	0.3	0.3
Transfer of business from subsidiary	0.2	2.1	303.0	305.3
At 31 March 2017	0.2	11.4	328.6	340.2
Charge for the year	0.1	2.1	158.3	160.5
Disposals	-	(0.9)	(131.7)	(132.6)
Impairment release	-	-	(1.2)	(1.2)
Transfers	-	(0.1)	-	(0.1)
At 31 March 2018	0.3	12.5	354.0	366.8
Carrying amount				
At 31 March 2017	5.7	4.8	730.4	740.9
At 31 March 2018	5.6	3.3	818.3	827.2

10 Intangible assets

Group

	Capitalised software £m	Intangibles £m	Goodwill £m	Total £m
Cost or valuation				
At 1 April 2016	14.2	1.0	13.9	29.1
Additions	5.2	-	-	5.2
At 31 March 2017	19.4	1.0	13.9	34.3
Additions	10.0	-	-	10.0
Disposals	(7.3)	(1.0)	(0.2)	(8.5)
Disposal of a subsidiary	(0.1)	-	-	(0.1)
At 31 March 2018	22.0	-	13.7	35.7
Amortisation and impairment				
At 1 April 2016	12.0	1.0	-	13.0
Amortisation charge	1.3	-	-	1.3
Impairment	-	-	3.0	3.0
At 31 March 2017	13.3	1.0	3.0	17.3
Amortisation charge	1.6	-	-	1.6
Amortisation eliminated on disposals	(7.3)	(1.0)	-	(8.3)
Disposal of a subsidiary	(0.1)	-	-	(0.1)
At 31 March 2018	7.5	-	3.0	10.5
Carrying amount				
At 31 March 2017	6.1	-	10.9	17.0
At 31 March 2018	14.5	-	10.7	25.2

10 Intangible assets (continued)

Disposals include amounts relating to Hitachi Capital Polska Sp. z o.o., a wholly owned subsidiary of the Group, which was sold to its immediate parent company, Hitachi Capital Corporation on 11 October 2017 (Note 12).

Company

	Goodwill £m	Capitalised software £m	Total £m
Cost or valuation			
At 1 April 2016	4.9	10.1	15.0
Additions	-	5.2	5.2
Acquired through business combinations	8.8	4.0	12.8
At 31 March 2017	13.7	19.3	33.0
Additions	-	10.0	10.0
Disposals	-	(7.3)	(7.3)
At 31 March 2018	13.7	22.0	35.7
Amortisation			
At 1 April 2016	-	8.0	8.0
Transfer of business from subsidiary	-	4.0	4.0
Amortisation charge	-	1.3	1.3
Impairment	3.0	-	3.0
At 31 March 2017	3.0	13.3	16.3
Amortisation charge	-	1.4	1.4
Amortisation eliminated on disposals	-	(7.2)	(7.2)
At 31 March 2018	3.0	7.5	10.5
Carrying amount			
At 31 March 2017	10.7	6.0	16.7
At 31 March 2018	10.7	14.5	25.2

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

At 31 March 2018, neither the Group nor the Company had any contractual commitments for the acquisition of intangible assets (2017: None).

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

10 Intangible assets (continued)

	2018 £ m	2017 £ m
Carrying amount of goodwill by business segment		
Invoice Finance	4.9	4.9
Driving Instructor Solutions	4.1	4.1
Commercial Vehicle Solutions	1.7	1.7
Hitachi Capital Polska Sp. z o.o.	-	0.2
Total	10.7	10.9

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% (2017: 14.9%) were applied to cash flow projections and cash flows beyond the four year period were extrapolated using a range of growth rates between 2% and 10% (2017: 2% and 10%) depending on the nature of the business segments.

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.

Disposal of Hitachi Capital Polska Sp. z o.o.
During the year, the Group sold Hitachi Capital Polska Sp. z o.o., a wholly owned subsidiary, to its immediate parent company, Hitachi Capital Corporation (Note 12).

11 Loans and Receivables

Movements in the allowances for impairment losses

	2018 £ m	2017 £ m
Group		
At 1 April	22.8	16.3
Amounts written off	(14.7)	(13.7)
Recoveries	2.6	2.1
Charge to the income statement	15.7	18.1
Total at 31 March	26.4	22.8
Loans and receivables, gross of impairment	4,118.9	3,404.6
Loans and receivables, net of impairment	4,092.5	3,381.8

11 Loans and Receivables (continued)

	2018 £ m	2017 £ m
Company		
At 1 April	22.8	16.3
Amounts written off	(14.6)	(13.7)
Recoveries	2.6	2.1
Charge to the income statement	15.6	18.1
Total at 31 March	26.4	22.8
Loans and receivables, gross of impairment	4,118.9	3,395.4
Loans and receivables, net of impairment	4,092.5	3,372.6

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

	2018 £ m	%	2017 £ m	%
Group				
Financial lease receivables	117.2	5.2	133.0	5.5
Hire Purchase agreements	959.3	5.0	827.4	5.4
Instalment finance agreements	2,771.1	7.8	2,272.2	7.8
Other loans and advances	244.9	-	149.2	-
Total	4,092.5	6.7	3,381.8	7.2

	2018 £ m	%	2017 £ m	%
Company				
Financial lease receivables	117.2	5.2	119.0	6.1
Hire Purchase agreements	959.3	5.0	827.4	5.4
Instalment finance agreements	2,771.1	7.8	2,272.2	7.8
Other loans and advances	244.9	-	154.0	2.3
Total	4,092.5	6.7	3,372.6	6.5

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

11 Loans and Receivables (continued)

Group	<1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Finance lease receivables at 31 March 2018					
Finance leases - gross	46.7	62.6	19.3	0.8	**129.4**
Deferred revenue	(5.4)	(4.7)	(0.7)	-	**(10.8)**
Impairment	(0.5)	(0.7)	(0.2)	-	**(1.4)**
Total	40.8	57.2	18.4	0.8	**117.2**
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**
Hire Purchase agreements at 31 March 2018					
Hire purchase agreements - gross	382.3	494.1	161.1	7.8	**1,045.3**
Deferred revenue	(40.1)	(35.7)	(5.2)	(0.5)	**(81.5)**
Impairment	(1.7)	(2.1)	(0.7)	-	**(4.5)**
Total	340.5	456.3	155.2	7.3	**959.3**
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**
Instalment Finance at 31 March 2018					
Instalment finance - gross	1,207.1	1,391.9	458.6	131.5	**3,189.1**
Deferred revenue	(160.4)	(154.9)	(49.5)	(33.1)	**(397.9)**
Impairment	(7.6)	(8.9)	(2.9)	(0.7)	**(20.1)**
Total	1,039.1	1,228.1	406.2	97.7	**2,771.1**

11 Loans and Receivables (continued)

Group	**<1 yr £m**	**1-3 yrs £m**	**3-5 yrs £m**	**>5 yrs £m**	**Total £m**
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**
Other Loans and Advances at 31 March 2018					
Other loans - gross	216.7	25.8	3.0	-	**245.5**
Deferred revenue	(0.2)	-	-	-	**(0.2)**
Impairment	(0.4)	-	-	-	**(0.4)**
Total	216.1	25.8	3.0	-	**244.9**
Other Loans and Advances at 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**
Total loans and receivables, net of impairment - as at 31 March 2018	1,636.5	1,767.4	582.8	105.8	**4,092.5**
Total loans and receivables, net of impairment - as at 31 March 2017	1,367.4	1,451.1	474.1	89.2	**3,381.8**

11 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 2018					
Finance leases - gross	46.7	62.6	19.3	0.8	**129.4**
Deferred revenue	(5.4)	(4.7)	(0.7)	-	**(10.8)**
Impairment	(0.5)	(0.7)	(0.2)	-	**(1.4)**
Total	40.8	57.2	18.4	0.8	**117.2**
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**
Hire Purchase agreements at 31 March 2018					
Hire purchase agreements - gross	382.3	494.1	161.1	7.8	**1,045.3**
Deferred revenue	(40.1)	(35.7)	(5.2)	(0.5)	**(81.5)**
Impairment	(1.7)	(2.1)	(0.7)	-	**(4.5)**
Total	340.5	456.3	155.2	7.3	**959.3**
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**
Instalment Finance at 31 March 2018					
Instalment finance - gross	1,207.1	1,391.9	458.6	131.5	**3,189.1**
Deferred revenue	(160.4)	(154.9)	(49.5)	(33.1)	**(397.9)**
Impairment	(7.6)	(8.9)	(2.9)	(0.7)	**(20.1)**
Total	1,039.1	1,228.1	406.2	97.7	**2,771.1**

11 Loans and Receivables (continued)

Company	<1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
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**
Other Loans and Advances at 31 March 2018					
Other loans - gross	216.7	25.8	3.0	-	**245.5**
Deferred revenue	(0.2)	-	-	-	**(0.2)**
Impairment	(0.4)	-	-	-	**(0.4)**
Total	216.1	25.8	3.0	-	**244.9**
Other Loans and Advances at 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)**
Loans receivable from subsidiaries	-	-	-	4.9	**4.9**
Total	133.4	12.3	3.2	5.1	**154.0**
Total loans and receivables, net of impairment - as at 31 March 2018	1,636.5	1,767.4	582.8	105.8	**4,092.5**
Total loans and receivables, net of impairment - as at 31 March 2017	1,363.0	1,443.7	471.9	94.0	**3,372.6**

11 Loans and Receivables (continued)

In the above Other Loans and Advances, the Company has a loan receivable of £nil (2017: £4.9m) 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 and Company at the reporting date is £7.1m (2017: £6.0m).

Refer to note 28 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 £41.4m (2017: £48.1m) of loans and receivables are written at floating interest rates, and are therefore subject to cash flow interest rate risk.

12 Disposal of subsidiary

On 11 October 2017, the Group sold Hitachi Capital Polska Sp. z o.o., a wholly owned subsidiary, to its immediate parent company, Hitachi Capital Corporation for a cash consideration of £3.1m.

The carrying values of the identifiable assets and liabilities of Hitachi Capital Polska Sp. z o.o. as at 30 September 2017 and at prior year end are set out below.

	Carrying value at 30 September 2017 £ m	Carrying value at 31 March 2017 £ m
Assets and liabilities disposed of:		
Property, plant and equipment	35.9	31.2
Inventory	0.9	0.9
Trade receivables	2.8	2.2
Bank balances and cash	(0.2)	1.2
Other assets	25.7	18.3
Trade payables	(1.5)	(1.0)
Other liabilities	(60.6)	(50.1)
Attributable goodwill	0.2	0.2
	3.2	2.9

Gain/(loss) on disposal	(0.1)
Total consideration	3.1

12 Disposal of subsidiary (continued)

Satisfied by:	
Cash and cash equivalents received	3.1
Cash flow analysis:	
Cash consideration received	3.1
Less: cash and cash equivalent balances disposed of	0.2
Net cash inflow arising on disposal	3.3

A loss of £0.1m arose on the disposal of Hitachi Capital Polska Sp. z o.o., calculated as the proceeds of disposal less the carrying amount of the subsidiary's net assets and attributable goodwill. In addition, the Group released £0.3m contingent consideration relating to the acquisition of Hitachi Capital Polska Sp. z o.o. in October 2014 resulting in overall profit on disposal of £0.2m which is included within other revenue (Note 5).

13 Derivative Financial Instruments

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

	Cross currency swap contracts							
2018	**USD £ m**	**HKD £ m**	**Yen £ m**	**NZD £ m**	**Other £ m**	**Total £m**	**Interest rate swap £m**	**Total £ m**
Assets								
Less than 1 year	6.0	4.7	2.1	-	4.7	17.5	0.5	18.0
1 to 2 years	2.4	-	5.5	-	6.7	14.6	1.8	16.4
2 to 5 years	3.8	-	-	-	1.3	5.1	4.4	9.5
Over 5 year	-	-	-	-	-	-	-	-
Total	12.2	4.7	7.6	-	12.7	37.2	6.7	43.9
Liabilities								
Less than 1 year	(0.2)	-	-	-	(2.5)	(2.7)	(0.6)	(3.3)
1 to 2 years	-	-	-	-	(11.9)	(11.9)	(0.5)	(12.4)
2 to 5 years	(13.6)	(4.5)	(9.5)	-	(1.5)	(29.1)	(3.7)	(32.8)
Over 5 years	-	-	-	-	(1.3)	(1.3)	(2.9)	(4.2)
Total	(13.8)	(4.5)	(9.5)	-	(17.2)	(45.0)	(7.7)	(52.7)
	(1.6)	0.2	(1.9)	-	(4.5)	(7.8)	(1.0)	(8.8)
Of Which,								
Designated as fair value hedges	-	-	-	-	(11.6)	(11.6)	(5.7)	(17.3)
Designated as cash flow hedges	(1.6)	0.2	(1.9)	-	7.1	3.8	4.7	8.5

13 Derivative Financial Instruments (continued)

	Cross currency swap contracts							
2017	**USD £ m**	**HKD £ m**	**Yen £ m**	**NZD £ m**	**Other £ m**	**Total £m**	**Interest rate swap £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 year	-	-	-	-	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)
	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

The hedged cash flows are expected to occur and affect Other Comprehensive Income in the periods up to July 2026 (2017: July 2026) for cross currency swaps and to June 2023 (2017: September 2021) for interest rate swaps. The description of the hedges are covered in significant accounting policies notes 2.4(k) and 2.4(l).

A description of the risks being hedged for fair value and cash flow hedges is disclosed in note 28.

	2018 £ m	**2017 £ m**
Loss on fair value hedging instruments	(15.9)	(4.4)
Gain on the hedged item attributable to the hedged risk in FV hedges	16.2	4.8
Total gain recognised in the income statement	0.3	0.4

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			
	2018 £m	2018 %	2017 £m	2017 %	2018 £m	2018 %	2017 £m	2017 %
Bank and group borrowings	1,468.1	1.3	1,645.7	1.2	1,468.1	1.3	1,600.3	1.2
Commercial Paper	217.6	0.5	242.1	0.7	217.6	0.5	242.1	0.7
Funding from securitised receivables	400.0	1.0	300.0	0.9	400.0	1.0	300.0	0.9
Medium term notes	2,067.9	1.2	1,444.9	1.4	2,067.9	1.2	1,444.9	1.4
Total	4,153.6	1.3	3,632.7	1.5	4,153.6	1.3	3,587.3	1.5

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 1.50% (2017: 1.25%) 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.

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 28). 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 2018 £m	Floating 2018 £m	Total 2018 £m	Fixed 2017 £m	Floating 2017 £m	Total 2017 £m
Current Liabilities						
On demand or within 1 year	328.5	1,063.5	1,392.0	771.1	648.4	1,419.5
Non Current Liabilities						
More than 1 year but less than 2	452.2	773.0	1,225.2	314.1	674.1	988.2
More than 2 years but less than 7	877.7	658.7	1,536.4	708.3	516.7	1,225.0
	1,329.9	1,431.7	2,761.6	1,022.4	1,190.8	2,213.2
	1,658.4	2,495.2	4,153.6	1,793.5	1,839.2	3,632.7

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 2018 or 2017.

Company	Fixed 2018 £m	Floating 2018 £m	Total 2018 £m	Fixed 2017 £m	Floating 2017 £m	Total 2017 £m
Current Liabilities						
On demand or within 1 year	328.5	1,063.5	1,392.0	742.0	648.3	1,390.3
Non Current Liabilities						
More than 1 year but less than 2	452.2	773.0	1,225.2	297.9	674.1	972.0
More than 2 years but less than 7	877.7	658.7	1,536.4	708.3	516.7	1,225.0
	1,329.9	1,431.7	2,761.6	1,006.2	1,190.8	2,197.0
	1,658.4	2,495.2	4,153.6	1,748.2	1,839.1	3,587.3

14 Interest Bearing Borrowings (continued)

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 2018	2,147.3	965.7	339.0	387.4	0.4	313.8	4,153.6
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 2017 £m
31 March 2018	2,147.3	965.7	339.0	387.4	0.4	313.8	4,153.6
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

		Carrying amount		Fair value		Fair Value Hierarchy
Group:	**Note**	**2018 £ m**	**2017 £ m**	**2018 £ m**	**2017 £ m**	
Financial assets measured at fair value:						
Derivative financial instruments	13	43.9	161.0	43.9	161.0	2
Financial assets not measured at fair value:						
Cash and cash equivalent	18	6.2	2.3	6.2	2.3	1
Trade Debtors		42.1	43.7	42.1	43.7	3
Loans and receivables	11	4,092.5	3,381.8	4,127.3	3,416.0	3
Total financial assets		4,184.7	3,588.8	4,219.5	3,623.0	
Financial liabilities measured at fair value:						
Derivative financial instruments	13	52.7	22.7	52.7	22.7	2
Financial liabilities measured at fair value:						
Bank overdraft	18	7.2	3.5	7.2	3.5	1
Trade creditors and accruals, including balances due to invoice financing clients		138.7	133.6	138.7	133.6	3
Interest bearing borrowings	14	4,153.6	3,632.7	4,176.9	3,658.8	3
Total financial liabilities		4,352.2	3,792.5	4,375.5	3,818.6	

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

		Carrying amount		Fair value		Fair Value Hierarchy
Company:	**Note**	**2018 £ m**	**2017 £ m**	**2018 £ m**	**2017 £ m**	
Financial assets measured at fair value:						
Derivative financial instruments	13	43.9	161.0	43.9	161.0	2
Financial assets not measured at fair value:						
Cash and cash equivalent	18	6.2	1.1	6.2	1.1	1
Trade Debtors		42.1	41.5	42.1	41.5	3
Loans and receivables	11	4,092.5	3,372.6	4,127.3	3,406.8	3
Total financial assets		4,184.7	3,576.2	4,219.5	3,610.4	
Financial liabilities measured at fair value:						
Derivative financial instruments	13	52.7	22.7	52.7	22.7	2
Financial liabilities measured at fair value:						
Bank overdraft	18	7.2	3.5	7.2	3.5	1
Trade creditors and accruals, including balances due to invoice financing clients		138.7	132.0	138.7	132.0	3
Interest bearing borrowings	14	4,153.6	3,587.3	4,176.9	3,613.4	3
Total financial liabilities		4,352.2	3,745.5	4,375.5	3,771.6	

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		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Motor vehicles for resale	17.3	14.0	17.3	13.1
Vehicles not yet in leasing agreement	2.9	5.7	2.9	5.7
	20.2	19.7	20.2	18.8

17 Trade Receivables and Other Assets

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Trade debtors and prepayments	55.9	58.5	55.8	54.5
Other receivables	8.8	12.4	8.8	10.9
Total current trade and other receivables	64.7	70.9	64.6	65.4

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 2018, the trade debtor impairment provision was as follows:

	Group £ m	Company £ m
At 31 March 2016	0.4	-
Transfer of business from subsidiaries	-	0.4
At 31 March 2017	0.4	0.4
Amounts written off	(0.6)	(0.6)
Recoveries	0.1	0.1
Charge to the income statement	0.9	0.9
At 31 March 2018	0.8	0.8

18 Cash and cash equivalents

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 2018:

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Cash at bank	6.2	2.3	6.2	1.1
Bank overdrafts	(7.2)	(3.5)	(7.2)	(3.5)
Cash and cash equivalents in statement of cash flows	(1.0)	(1.2)	(1.0)	(2.4)

In accordance with the security arrangements of liabilities as disclosed in note 14 to the financial statements, a net bank overdraft of £7.2m (2017: £3.5m) 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

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

	2018 £m	2018 No.	2017 £m	2017 No.
Issued and fully paid share capital				
Ordinary shares	110.7	442,674,523	110.7	442,674,523

20 Dividends Paid and Proposed

The directors are proposing a final dividend of approximately 6.8p (2017: nil) per share totalling £30.0m (2017: nil). This dividend has not been accrued in the statement of financial position.

21 Other provisions - group and company

	Customer claims £m	Onerous Lease and dilapidations £m	Other provisions £m	Total £m
At 1 April 2016	22.5	1.0	-	23.5
Additional provisions	4.8	0.2	0.5	5.5
Increase / (decrease) through business combinations	0.3	0.3	0.6	1.2
Provisions used	(4.6)	(0.3)	(0.4)	(5.3)
Unused provision reversed	(5.1)	-	-	(5.1)
At 31 March 2017	17.9	1.2	0.7	19.8
Non-current liabilities	0.5	0.9	-	1.4
Current liabilities	17.4	0.3	0.7	18.4

21 Other provisions - group and company (continued)

	Customer claims £m	Onerous lease and dilapidations £m	Other provisions £m	Total £m
At 1 April 2017	17.9	1.2	0.7	19.8
Additional provisions	8.6	0.1	0.1	8.8
Provisions used	(1.7)	-	(0.6)	(2.3)
Unused provision reversed	(5.2)	(0.2)	-	(5.4)
At 31 March 2018	19.6	1.1	0.2	20.9
Non-current liabilities	0.5	0.9	-	1.4
Current liabilities	19.1	0.2	0.2	19.5

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 is recognised 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. The Group also recognises customer redress provision for legal or regulatory proceedings.

Onerous Lease and Dilapidations
The Group holds dilapidation provisions relating to its leased sites at Staines, Leeds and Newbury. The provision represents an estimate of the work required to bring it back to its original state at the end of the contract. The estimated outflow of the non-current element of this provision is expected to be: less than one year £0.2m (2017: £0.3m), over 1 year but less than 10 years £0.6m (2017: £0.6) and over 10 years £0.3m (2017: £0.3m).

22 Reserves

Group
The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

2018	Other reserves £m
Gain/(loss) on cash flow hedges (net)	12.0
Foreign currency translation gains/(losses)	(0.2)
Remeasurements of post employment benefit obligations	3.6
	15.4

22 Reserves (continued)

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

2017	Other reserves £m
Gain/(loss) on cash flow hedges (net)	3.2
Foreign currency translation gains/(losses)	(0.1)
Remeasurements of post employment benefit obligations	(5.8)
	(2.7)

Company

The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

2018	Other reserves £m
Gain/(loss) on cash flow hedges (net)	12.1
Foreign currency translation gains/(losses)	(0.2)
Remeasurements of post employment benefit obligations	3.6
	15.5

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

2017	Other reserves £m
Gain/(loss) on cash flow hedges (net)	3.1
Remeasurements of post employment benefit obligations	(5.8)
	(2.7)

23 Obligations under leases and hire purchase contracts

Lessee Activities

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

Group

Operating leases

The total future value of minimum lease payments is as follows:

	2018 £m	2017 £m
Within one year	1.1	1.2
In two to five years	4.8	4.8
In over five years	5.4	6.3
	11.3	12.3

23 Obligations under leases and hire purchase contracts (continued)

The amount of non-cancellable operating lease payments recognised as an expense during the year was £1.9m (2017 - £1.9m)

Company

Operating leases

The total future value of minimum lease payments is as follows:

	2018 £m	2017 £m
Within one year	1.1	1.2
In two to five years	4.8	4.8
In over five years	5.4	6.3
	11.3	12.3

The amount of non-cancellable operating lease payments recognised as an expense during the year was £1.9m (2017 - £1.8m)

Operating lease payments represent rentals payable by the Group for certain of its office properties and related office equipment. Leases are negotiated for a term of three to fifteen years.

Lessor Activities

The Group, through Vehicle Solutions and Business Finance, 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 forms a significant part of the Group's business and during the year amounted to £245.5m (2017: £239.7m).

Operating leases as a lessor

Future minimum lease rentals receivable under non-cancellable operating leases at year end.

	2018 £ m	2017 £ m
Within 1 year	186.3	195.3
More than 1 year but less than 5 years	291.8	254.3
Over 5 years	18.7	15.4
	496.8	465.0

24 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 £2.5m (2017 - £2.1m) represents contributions payable to the scheme at rates specified in the rules of the scheme. There were no unpaid contributions at either 31 March 2018 or 31 March 2017.

Defined benefit pension schemes

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 a 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 interests of the scheme participants and are responsible for setting the scheme's investment and governance policies and paying benefits. The scheme 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.

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 as at 31 March 2018 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.

On 31 January 2018, the Group decided to close the scheme to future accrual with effect from 5 April 2018, with active members becoming deferred members from that date. The effect of the closure has been recognised as a curtailment gain of £0.5m in the income statement.

Contributions payable to the pension scheme at the end of the year are £nil (2017 - £nil).

The expected contributions to the plan for the next reporting period are £0.5m.

The scheme was most recently valued on 31 March 2016. The Group made a £4.2m contribution payment in October 2016 to remove the deficit.

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.

24 Retirement Benefit Pension Schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2018 £m	2017 £m
Fair value of scheme assets	57.6	57.0
Present value of scheme liabilities	(54.2)	(58.3)
Defined benefit pension scheme surplus/(deficit)	3.4	(1.3)

Scheme assets

Changes in the fair value of scheme assets are as follows:

	2018 £m	2017 £m
Fair value at start of year	57.0	45.2
Interest income	1.5	1.7
Return on plan assets, excluding amounts included in interest income/(expense)	1.0	6.1
Employer contributions	0.5	4.7
Contributions by scheme participants	0.1	0.1
Benefits paid	(2.2)	(0.5)
Administrative expenses paid	(0.3)	(0.3)
Fair value at end of year	57.6	57.0

Analysis of assets

The major categories of scheme assets are as follows:

	2018 £m	2017 £m
Equity instruments	18.8	20.0
Debt instruments	5.6	5.6
Real estate	7.5	6.7
Government bonds	13.4	13.1
Net current assets	0.2	(0.1)
Diversified growth fund	12.1	11.7
	57.6	57.0

Actual return on scheme's assets

	2018 £m	2017 £m
Actual return on scheme assets	2.5	7.8

24 Retirement Benefit Pension Schemes (continued)

The scheme's assets are invested in a diversified range of asset classes. As at 31 March 2018 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.

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	2018 £m	2017 £m
Present value at start of year	58.3	43.5
Current service cost	0.5	0.3
Actuarial gains and losses arising from changes in demographic assumptions	(1.7)	(0.7)
Actuarial gains and losses arising from changes in financial assumptions	(2.1)	14.1
Actuarial gains and losses arising from experience adjustments	0.3	(0.1)
Interest cost	1.5	1.6
Benefits paid	(2.2)	(0.5)
Contributions by scheme participants	0.1	0.1
Effect of curtailments	(0.5)	-
Present value at end of year	54.2	58.3

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2018 %	2017 %
Retail price inflation	3.2	3.2
Consumer price inflation	2.1	2.1
Discount rate	2.7	2.6
General salary increases	3.2	3.2
Pension increases in payment (5% or RPI if less)	3.0	3.1
Pension increases in payment (3% or CPI if less)	2.1	2.1
Pension increases in payment (2.5% or RPI if less)	1.9	1.9

24 Retirement Benefit Pension Schemes (continued)

Post retirement mortality assumptions

	2018 Years	2017 Years
Current UK pensioners at retirement age - male	22.7	22.9
Current UK pensioners at retirement age - female	24.7	25.0
Future UK pensioners at retirement age - male	24.1	24.6
Future UK pensioners at retirement age - female	26.2	26.9

Amounts recognised in the income statement

	2018 £m	2017 £m
Amounts recognised in operating profit		
Current service cost	0.5	0.3
Gains on curtailments	(0.5)	-
Administrative expenses paid	0.3	0.3
Recognised in arriving at operating profit	0.3	0.6
Amounts recognised in finance income or costs		
Net interest	-	(0.1)
Total recognised in the income statement	0.3	0.5

The total amount recognised in the income statement has been included in Administrative expenses.

Amounts taken to the Statement of Comprehensive Income

	2018 £m	2017 £m
Actuarial gains and losses arising from changes in demographic assumptions	1.7	0.7
Actuarial gains and losses arising from changes in financial assumptions	2.1	(14.1)
Actuarial gains and losses arising from experience adjustments	(0.3)	0.1
Return on plan assets, excluding amounts included in interest income/(expense)	1.0	6.1
Amounts recognised in the Statement of Comprehensive Income	4.5	(7.2)

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

24 Retirement Benefit Pension Schemes (continued)

	2018	2017
	- 0.1%	- 0.1%
Adjustment to discount rate	**£m**	**£m**
Present value of total obligation	1.2	1.3
Fair value of scheme assets	0.4	0.4
Net Retirement benefit asset / obligations	0.8	0.9

	2018	2017
	+ 0.1%	+ 0.1%
Adjustment to rate of inflation	**£m**	**£m**
Present value of total obligation	1.1	1.2
Fair value of scheme assets	0.4	0.3
Net Retirement benefit asset / obligations	0.7	0.9

	2018	2017
	+ 1 Year	+ 1 Year
Adjustment to mortality age rating assumption	**£m**	**£m**
Present value of total obligation	2.2	2.4
Net Retirement benefit asset / obligations	2.2	2.4

24 Retirement Benefit Pension Schemes (continued)

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.

The weighted average duration of the defined benefit obligation is 24 years (2017: 24 years), and most of the benefit payments are linked to future levels of inflation.

25 Trade and other payables

Trade and other payables - current

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Balances due to invoice financing clients	51.5	48.9	51.5	48.9
Rentals in advance and deferred maintenance - current	37.4	18.5	37.4	18.5
Trade creditors and accruals	65.4	64.0	67.1	63.5
Other creditors	21.6	27.9	21.4	28.3
	175.9	159.3	177.4	159.2

Trade and other payables - non current

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Rentals in advance and deferred maintenance - non current	9.7	31.9	9.7	31.9
Retailer liability	65.9	62.8	65.9	62.8
	75.6	94.7	75.6	94.7

26 Reconciliation of liabilities arising from financing activities

Group

	At 1 April 2017 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2018 £m
Interest bearing loans and borrowings - current	1,419.5	60.8	(90.1)	1.8	1,392.0
Interest bearing loans and borrowings - non current	2,213.2	683.7	(117.4)	(17.9)	2,761.6
	3,632.7	744.5	(207.5)	(16.1)	4,153.6

Company

	At 1 April 2017 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2018 £m
Interest bearing loans and borrowings - current	1,390.3	90.1	(90.2)	1.8	1,392.0
Interest bearing loans and borrowings - non current	2,197.0	637.9	(55.4)	(17.9)	2,761.6
	3,587.3	728.0	(145.6)	(16.1)	4,153.6

27 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:

27.1 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.

	2018 £ m	2017 £ m
Payments for administration charges HCC	5.9	6.1
Receipts for administration charges HCC	-	1.6

	2018 £ m	2017 £ m
Amounts owed to Hitachi Capital Corporation	2.9	3.3
Amounts owed by Hitachi Capital Corporation	0.2	1.1

27.2 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.

	2018 £ m	2017 £ m
Interest paid to Hitachi companies	-	0.6
Payments for administration charges to Hitachi companies	0.5	0.7
Interest paid to Mitsubishi companies	15.0	-
Interest received from Mitsubishi companies	-	1.0
Receipts for administration charges from Hitachi companies	0.3	0.2
Interest income from Hitachi companies	0.7	0.1
Lease income from Hitachi companies	0.3	0.3

27 Related Party Disclosures (continued)

	2018 £ m	2017 £ m
Amounts due to Hitachi companies	0.1	-
Amounts due to Mitsubishi companies in respect of borrowings	1,102.8	-
Accrued interest expense owed to Mitsubishi companies	2.0	-
Amounts due from Hitachi companies	62.6	19.8
Amounts due from Hitachi companies in respect of leases	0.6	0.6

Remuneration of Key Management Personnel

	2018 £m	2017 £m
Salaries and other short term employee benefits	2.6	2.8
Post-employment benefits	0.1	0.1
Other long-term benefits	0.6	0.7
	3.3	3.6

The aggregate amount of remuneration paid to the Directors was £1.3m (2017: £1.2m). The highest paid Director's remuneration in the year was £0.9m (2017: £0.7m).

No directors (2017: nil) were accruing retirement benefits in respect of qualifying services under a defined benefit scheme or a money purchase scheme.

Other transactions with directors
A director's loan was taken out by Guy Munnoch and commenced on 21 October 2017 at an interest rate of 0%. The total amount of credit was £7,833.70 and was settled in full prior to 31 March 2018.

28 Financial risk management objective and policies

Group

Credit risk and impairment

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 11. 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 £4.4m (2017: £4.0m) 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 £nil (2017: £45.4m) 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 oversight 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.

28 Financial risk management objective and policies (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

Gross loans and receivables and trade debtors:	Group 2018 £ m	Group 2017 £ m	Company 2018 £ m	Company 2017 £ m
Neither past due nor impaired:				
Very low risk	2,327.3	1,924.0	2,327.3	1,928.9
Low risk	1,071.6	937.0	1,071.6	921.0
Moderate risk	665.9	522.1	665.9	522.1
High Risk	241.6	205.3	241.6	205.3
Ungraded	187.8	122.3	187.8	122.3
Total	4,494.2	3,710.7	4,494.2	3,699.6
Past due not impaired:				
< 30 days	6.1	4.6	6.1	4.6
31-60 days	25.1	24.4	25.1	24.3
61-90 days	6.0	5.1	6.0	5.1
91-365 days	12.1	9.1	12.1	9.1
>365 days	1.4	2.1	1.4	2.1
Total	50.7	45.3	50.7	45.2
Individually impaired:				
Retail	22.7	21.9	22.7	21.9
Commercial	84.6	93.2	84.6	93.1
Total	107.3	115.1	107.3	115.0
Total	4,652.2	3,871.1	4,652.2	3,859.8
Gross loans and receivables	4,609.3	3,827.0	4,609.3	3,817.8
Trade Debtors	42.9	44.1	42.9	42.0

28 Financial risk management objective and policies (continued)

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

'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 11.

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 2.4(j). At the year end 31 March 2018 deferred cash flows amounted to £65.9m (2017: £57.7m), against related gross loans and receivables of £2,005.2m (2017: £1,937.4m). There was no such deferred cash collateral held against gross loans and receivables amounting to £1,238.9m (2017: £717.5m). Of the total gross loans and receivables, £22.8m was impaired at the year-end (2017: £21.9m).

28 Financial risk management objective and policies (continued)

(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 £16.9m (2017: £14.0m), which related to finance leases. Payments due from customers under operating leases are included under trade receivables. The facilities and any customer exposures thereunder are secured on the passenger car and commercial vehicles leased to the customers under the contracts.

(c) Business Finance
Lending decisions for asset finance transactions are primarily based on an obligor's ability to repay the debt from normal business operations rather than reliance on the disposal of any security provided. Nevertheless, the original cost and expected collateral values of financed assets are rigorously assessed at the time of loan origination in line with the 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, £107.5m (2017: £96.3m) related to block discounting agreements. Collateral coverage for block discounting agreements is verified regularly by an internal field audit team.

Of the total gross loans and receivables, held by Business Finance, £83.3m was impaired (2017: £92.4m). Of this amount, £79.8m (2017: £89.4m) was performing as agreed and not past due.

(d) Invoice Finance
Credit facilities are established by reference to the expected levels of drawings made by clients against the value of invoices assigned. The net loans and receivables for invoice finance, of £124.2m (2017: £74.5m) are primarily collateralised by trade receivables purchased from factoring clients which had a gross value of £175.6m (2017: £123.4m), 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 breach of contract for which the guarantor is liable. Clients are subject to a rigorous programme of continuous verifications, reviews and audits.

28 Financial risk management objective and policies (continued)

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.

28 Financial risk management objective and policies (continued)

	<1 yr £ m	1-2 yrs £ m	2-3 yrs £ m	3-4 yrs £ m	4-5 yrs £ m	5-6 yrs £ m	>6 yrs £ m	Total £m
At 31 March 2018								
Non derivative financial liabilities:								
Foreign currency denominated borrowings	(580.5)	(749.8)	(421.7)	(201.6)	(70.2)	(10.9)	(38.7)	(2,073.4)
Sterling borrowings	(662.9)	(370.2)	(325.8)	(197.6)	(93.6)	(150.8)	(10.4)	(1,811.3)
Securitisation	(198.2)	(143.8)	(52.7)	(12.1)	(3.2)	(0.6)	(0.1)	(410.7)
Trade payables	(175.8)	-	-	-	-	-	-	(175.8)
Financial Guarantees	(4.4)	-	-	-	-	-	-	(4.4)
	(1,621.8)	(1,263.8)	(800.2)	(411.3)	(167.0)	(162.3)	(49.2)	(4,475.6)
Derivative financial liabilities:								
Foreign currency receipts relating to cross currency swaps	(327.8)	(749.4)	(421.7)	(201.6)	(70.2)	(10.9)	(38.7)	(1,820.3)
Sterling payment relating to interest rate swaps	1.9	1.7	1.8	1.4	1.1	0.2	-	8.1
Sterling receipts relating to interest rate swaps	(2.0)	(3.0)	(1.6)	(0.3)	-	-	-	(6.9)
Sterling payments relating to cross currency swaps	315.2	746.8	430.0	205.3	75.6	10.8	39.1	1,822.8
	(12.7)	(3.9)	8.5	4.8	6.5	0.1	0.4	3.7
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)

28 Financial risk management objective and policies (continued)

	<1 yr £ m	1-2 yrs £ m	2-3 yrs £ m	3-4 yrs £ m	4-5 yrs £ m	5-6 yrs £ m	>6 yrs £ m	Total £m
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 payment 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)

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:

28 Financial risk management objective and policies (continued)

	Amount drawn 2018 £ m	Capacity available 2018 %	Amount drawn 2017 £ m	Capacity available 2017 %
European Medium term note	2,067.8	27	1,445.4	55
European commercial paper programme	169.4	52	85.3	73
Belgian domestic commercial paper programme	48.2	78	156.9	26
Commited securisation programme	399.7		299.9	-
Uncommited Short Term facilities from relationship bank	35.4	89	55.6	78
Uncommited LongTerm facilities from relationship bank	1,433.1	10	1,384.7	15
Syndicated Loans	-	-	159.6	-
Other loans from banks	-	-	45.3	-
Total Borrowings	4,153.6	85	3,632.7	65

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.

Market risk

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

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

Interest rate risk

Most of the Group's assets are at a fixed rate of interest so there is a risk of financial loss if the actual funding cost for these assets rises above the rate at which they were priced 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.

28 Financial risk management objective and policies (continued)

Foreign exchange risk

This is the risk that the value of the Group's foreign currency denominated assets and liabilities are adversely impacted by changes in exchange rates. 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 2018 and 31 March 2017, all currency exposures on non-sterling debt were 100% hedged. This risk is also monitored monthly.

28 Financial risk management objective and policies (continued)

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.

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 persisting 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 £8.9m (2017: debited by £14.0m). This is mainly attributable to the Group's exposure to interest rates on variable rate borrowings.
• Other equity reserves would be credited by £15.8m (2017: credited by £15.6m) mainly as a result of the change in mark to market valuation of interest rate swaps in designated hedging relationships.

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 £4.5m (2017: credited by £7.0m) and other equity reserves debited by £8.0m (2017: debited by £9.5m) approximately.

28 Financial risk management objective and policies (continued)

Cross Currency Swap Contracts

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

Foreign Currency Sensitivity

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

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

Fair Value Hedges

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

Credit risk

This is the risk that customers are unable to make their loan or lease repayments when due. Hitachi Capital may not accurately assess this risk, or be exposed to an unforeseen increase in the number of customers defaulting on their loans and incur increased levels of bad debts.

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 and Business Finance 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.

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.

28 Financial risk management objective and policies (continued)

Capital risk 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 44. 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 source of funds. The Group will balance its overall capital structure through the payment of dividends to or capital injection from the parent company.

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 the reporting date the majority of the risks and rewards on the transferred assets are retained by the Group, refer note 2.

Consumer Securitisation programme
In accordance with the terms and conditions, as at 31 March 2018 the Group (and the Company) had transferred £385.5m (2017: £250.3m) of its instalment finance agreements, with a fair value of £381.7m (2017: £246.9m) 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 £300m (2017: £200m), with a fair value of £300m (2017: £200m) as at the reporting date.

SME Securitisation programme
In accordance with the terms and conditions, as at 31 March 2018 the Group (and the Company) had transferred £125.9m (2017: £126.3m) of its hire purchase and finance lease receivables, with a fair value of £125.3m (2017: £125.6m) 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 £100.0m (2017: £100.0m), with a fair value of £100.0m (2017: £100.0m) as at the reporting date.

Transferred financial assets that are derecognised by the Group

During the year, the Group sold tranches 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 the Group has transferred sufficient risks and rewards and had surrendered control over the transferred assets.

28 Financial risk management objective and policies (continued)

Securitisation Of Consumer Agreements (SOCA)

Following the transfer, the Group continues to act as a servicer of the transferred assets, with a servicing fee of 0.8% (2017: 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 £18.9m (2017: £10.1m). 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:

	2018 £ m	2017 £ m
Carrying Value	18.9	10.1
Fair value	18.9	10.1
Maximum exposure	18.9	10.1

	2018 £ m	2017 £ m
Interest income	4.1	0.8
Other Income / (charges)	0.6	(0.3)
	4.7	0.5

Securitisation Of Unsecured Loans DAC (SOUL DAC)

Following the transfer, the Group continues to act as a servicer of the transferred assets, with a servicing fee of 1.5% (2017: 1.5%) of outstanding capital balance paid on a monthly basis. The Group has also provided subordinated debt with a carrying amount of £36.2m (2017: £17.3m). 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:

	2018 £ m	2017 £ m
Carrying value	36.2	17.3
Fair value	37.0	17.9
Maximum exposure	37.0	17.9

	2018 £ m	2017 £ m
Interest income	2.6	0.6
Other income / (charges)	5.4	(0.2)
	8.0	0.4

29 Non adjusting events after the financial period

On 25 June 2018 , the Financial Conduct Authority approved the proposed acquisition by the Company of the entire issued share capital of Franchise Finance Ltd. The acquisition was completed on 26th June 2018 for an initial cash consideration of £4m.