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Hitachi Capital (UK) PLC

Annual report and financial statements
Year ended 31 March 2011

Hitachi Capital (UK) PLC
Registered Office: Wallbrook Business Centre, Green Lane, Hounslow, Middlesex TW4 6NW.
Registered in Cardiff No: 1630491.

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Company overview

Hitachi Capital (UK) PLC is part of one of the world's largest corporations. We are a wholly owned subsidiary of Hitachi Capital Corporation, one of Japan's largest non-bank financial institutions. The ultimate parent company, Hitachi Limited, is a global supplier of technology and information systems.

Hitachi Capital provides finance and related products and services in a variety of sectors. We focus on markets where we can provide value adding expertise, aiming to offer a tailor made solution that matches the requirements of the customer. We develop and deliver our products and services through the following specialist business units: Hitachi Capital Consumer Finance, Hitachi Capital Vehicle Solutions, Hitachi Capital Business Finance and Hitachi Capital Invoice Finance.

Hitachi Capital typically finances the purchase of vehicles, specialist business equipment and consumer goods. Our customers invest in our knowledge, our commitment to world class service and our unique and market leading financial pedigree. We ensure that our customers also experience the qualities that characterise our company and its people: integrity, enthusiasm, and a strong desire to build a mutually successful, long term relationship with each and every customer.

Principal activities and strategy

Group strategy
Our strategy is to be the financial service provider of choice, offering added value financial products and superior service in our chosen markets. We focus on markets where we can be a major player and we seek to differentiate our offering based upon service delivery to achieve enhanced returns to our shareholders. Our key financial target is to achieve a post tax return on equity of 20% over the long term.

Operational organisation
The group's operations have been organised into five business units, (supported by group shared service functions), servicing three separate markets: consumer finance, vehicle solutions and business finance.

Business units

(a) Consumer Finance
Consumer Finance is a leading provider of retail point of sale finance, predominantly to high street retailers. We operate in a range of sectors, with particular strengths in furniture, jewellery, healthcare and home improvements. Consumer Finance provides fixed term instalment credit finance, which is predominantly interest free to the end customer.

(b) Vehicle Solutions
We provide vehicle management solutions for businesses which require flexible funding arrangements for cars and commercial vehicles. We offer a variety of financing options including contract hire, contract purchase, finance and operating leasing, as well as a wide range of complementary services including fleet management, full outsourcing, daily rental, insurance and employee car schemes. We also provide advice regarding health and safety and fleet environmental impact.

(c) Business Finance
We specialise in providing medium term asset finance to commercial customers mainly through direct relationships but also utilising the vendor and broker routes to market. Selected markets include farm and country, construction, production, transportation and financial services. Our products include hire purchase, finance and operating leasing and block discounting. In addition to these core financing products, we also provide asset management services.

(d) Invoice Finance
Hitachi Capital Invoice Finance's principal activity is the provision of factoring facilities for the book debts of small and medium sized UK based businesses.

(e) Insurance Europe
Domiciled in Ireland, Hitachi Capital Insurance Europe Limited (HCIE) acted as a direct insurer, mainly for payment protection (PPI), mortgage PPI (MPPI) and guaranteed asset protection (GAP) insurance. Our products were sold to consumers in the mortgage, retail, motor and finance markets. HCIE was placed in run off in April 2009.

Group business review

In the last year the fragile UK economy finally limped out of a long period of recession. The economic environment characterised by low interest rates, low company taxes and wage stability has not been sufficient to fuel strong economic growth. The economy has been held back by the effect of rising commodity prices, household earnings rising less than the rate of inflation, limited access to capital and the desire to reduce government expenditure. The low interest rate trading environment has been favourable for Hitachi Capital (UK) PLC as we have maintained access to capital and continued to lend and invest in assets in the UK. Supporting our customers and strategic partners during the period of sustained economic decline has enabled us to increase total assets to £1.65bn (2010 £1.47bn).

Our Consumer Finance operation has experienced strong demand from retailers for point of sale finance and we have increased new business in the last year by 22.9%. Our Vehicle Solutions contract hire operation has grown its average earning assets by 7.4%, despite a contracting market, through growth in the customer base and a portfolio acquisition. Our restructuring of the Business Finance operation continues with the successful disposal of three separate portfolios above book value and the commencement of writing direct and vendor based business. The Invoice Finance operation increased total assets by 34.4% during the year and we look forward to continued growth in this sector.

Insurance Europe was placed into run off in April 2009 as the business did not fit our long term strategy. We are pleased to report that the run off is proceeding to plan and the loss of £3.5m is a significant improvement on the prior year's loss of £5.7m. We do not expect to make a loss for the remainder of the run off period.

By maintaining access to multi-currency fixed and floating financing facilities in major global markets, the group maintained access to reliable sources of finance during the year. New business written during the year was £1.147bn (2010: £0.943bn), representing a 21.6% increase over the prior year.

Results
The results for the group are set out in the financial statements on pages 11 to 14, and the analysis of operating segments and revenue is detailed in notes 4 and 5 respectively.

Profit before additional finance items and tax was £28.5m (2010: £15m). This significant increase over the prior year has been driven by growth in revenue of 11.2% and interest costs have fallen with the maturity of long term debt. Profit after additional finance items but before tax was £26.8m (2010: £18.8m).

The group charge for bad debt impairment was £17.3m, which was a significant improvement on last year's charge of £30.2m, due mainly to the improved quality of the group's portfolio. Profit on disposal of vehicles and other leased assets resulted in a small gain for the year of £1.1m (2010: £1.8m).

Administration expenses for the year increased by 25.4% to £50.9m (2010: £40.6m), due to direct overheads in writing new business as well as goodwill write off and customer lists amortisation of £4.5m for the year (2010: £1.5m).

The IAS39 fair value adjustment for the year was a loss of £20,000 (2010: gain of £3.8m) and arises from the group's use of derivative financial instruments to hedge risks associated with interest rate and foreign currency fluctuations. The group does not use derivatives for speculative purposes. Securitisation fees were incurred following a request from the parent company to restructure the programme, which did not significantly change the group's funding or reporting; hence the fees incurred for the 12 month securitisation were written off.

The effective tax rate was 31% (2010: 26%) which was higher than expected due to the amortisation of intangibles and write off of goodwill. It is expected that the effective rate of tax will be approximately 27% for the coming year.

The post tax return on equity was 18.6% (2010: 18.7%). The group operates a dividend policy to distribute up to 30% of profit after tax. An interim dividend of 5p per share was paid during the year (2010: 4p) and the directors have recommended that a further dividend of 4.8p per share be proposed and paid for the year ended 31 March 2011 (2010: 6p).

A recently completed interim valuation of our final salary pension scheme and consultation with the trustees has concluded that the current plan is in surplus. The surplus calculated on the IAS19 basis at 31 March 2011 was £2.6m (2010: deficit of £1.3m).

Our ultimate parent company, Hitachi Limited, is listed on the New York Stock Exchange so we are required to comply with the US' Sarbanes-Oxley legislation. This involves fully documenting the group's processes that have an impact on the financial statements, identifying the risks associated with those processes which could give rise to error in the financial statements and identifying and testing the controls over those risks on an ongoing basis. We have satisfied Hitachi Limited's Sarbanes-Oxley requirements, which underline our commitment to maintaining a strong internal control environment.

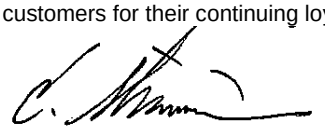
Group business review (cont'd)

The group has a central treasury function, which manages the group's borrowings in accordance with agreed policies and procedures. Debt is raised taking into account each business unit's requirements and portfolio maturity profile. We raise multi currency fixed and floating debt in the major global markets. Derivatives are utilised to mitigate currency and interest rate risks. Analysis of borrowings is detailed in note 14 and derivative financial instruments are summarised in note 13. The gearing, after adjusting for the hedged amount of borrowings, has decreased to 11.9 (2010: 13.9) and is well within the limit of 25 times equity set out in the company's Articles of Association.

Principal risks and uncertainties are set out in note 28. Management of employees is detailed in the directors' report.

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

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



C.Shirai
Chief Executive
9 June 2011

Corporate governance statement

Board of directors
The board holds formal meetings on a quarterly basis. There is a formal schedule of matters specifically reserved for decision by the board, underpinned by policies which describe those matters in more detail. The types of matters reserved for the board include approval of business strategy, operating budgets and financial statements and monitoring performance against them, approving group policies, reviewing the company's overall corporate governance arrangements and authorising transactions which fall outside the ordinary course of the company's business or are of major significance to the group.

The day to day responsibility for managing the group's business is delegated to the executive directors and the senior managers of the respective divisions and subsidiaries of the company, who implement the decisions made, and policies approved, by the board and deal with matters within the ordinary course of business.

Certain responsibilities of the board are delegated to committees, the work of which is described below.

The board comprises a non executive director and five executive directors.

Board committees
The board delegates certain defined responsibilities to committees, each of which have written terms of reference which are reviewed regularly. The composition and work of these committees is described below. The board may also delegate matters to the group planning & strategy committee, which comprises the executive directors, the managing directors of the group's respective divisions and subsidiaries and the heads of certain shared service functions. The committee meets quarterly and may make recommendations to the board on matters referred for consideration by the board.

Audit and risk committee
The audit and risk committee carries out the functions required by rule 7.1.3 of the Disclosure and Transparency Rules and comprises N.Carter (Chairman), who is a chartered accountant, C.Shirai and Y.Ohashi. In the opinion of the board, N.Carter is independent and has competence in accounting and auditing as required by rule 7.1.1 of the Disclosure and Transparency Rules.

The committee met four times in the year under review, coinciding with key dates in the financial reporting and audit cycle. The external auditors and the Managing Director attended meetings by invitation in order to ensure that all the information required by the audit committee was available for it to operate effectively. Other directors also attended the meetings at the invitation of the committee. The committee met separately with the external auditors whenever it considered this appropriate.

The committee's responsibilities are set out in its terms of reference, which are regularly reviewed. They include monitoring the financial reporting process and the statutory audit of the annual and consolidated accounts, reviewing the findings of both external and internal auditors, agreeing the audit plan for the internal audit function, and reviewing the effectiveness of the group's internal control, internal audit and risk management systems. The committee meets separately with and keeps under review the independence and objectivity of the group's external auditor, value for money of the audit and the nature, extent and cost effectiveness of the non audit services provided by the auditor. The committee satisfies itself that any safeguards required by ethical guidance regarding the provision of non audit services are implemented.

The committee also receives regular updates on the implementation of, and compliance with, certain aspects of the US Sarbanes-Oxley legislation in order, for example, to assure itself that the group continues to satisfy its ultimate parent company, Hitachi Limited, that it remains compliant with the legislation. Each year the committee holds one meeting which focuses primarily on internal control and risk management.

Disclosure committee
Although no longer subject to the UK Listing Authority's listing rules, the company has retained its disclosure committee. The role of this committee is to identify and assess matters which could have a material effect on the company's financial performance and to ensure that such matters are communicated to the board, the company's parent (Hitachi Capital Corporation) and the trustees of the group's pension scheme. The committee comprises each of the executive directors of the company and meets twice a year.

Remuneration committee
The company's remuneration committee was reconstituted, with revised terms of reference, on 11 April 2011. The role of this committee includes agreeing the policy for remuneration of staff, ensuring that appropriate incentives exist at all levels and overseeing any major changes in employee benefit structures across the group. The committee will also determine targets and remuneration for the various business unit heads and their sales teams and approve the payment of any significant extraordinary bonuses. Each of the executive directors of the company is a member of the committee, which has a quorum of three and will normally meet twice a year.

Corporate governance statement (cont'd)

Internal control

The board is responsible for the group's system of internal control and for reviewing its effectiveness. The system of internal control 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 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 2011 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 the following:

- There is a clearly defined board and board committee structure in place, with terms of reference setting out membership, roles and responsibilities.
- Organisational structures are in place which allow clear delegation of authorities and responsibilities throughout the group.
- Detailed annual budgets aligned with the corporate strategy are reviewed and approved by the board. Regular progress reports and results are reviewed by the board and actions taken as appropriate.
- Systems and procedures are in place to identify, control and report on the major risks facing the group. The audit and risk committee is responsible for co-ordinating this process and making recommendations to the board.
- The internal audit function, which is centrally controlled, reviews risk management practice and monitors compliance with policies and the effectiveness of internal control structures across the group. The work of the internal audit function is focused on areas of greatest risk to the group. The group's Internal Audit Manager reported to the Director of Risk Management and was given direct access to the Chairman of the audit and risk committee.

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

The group complies with the US' Sarbanes-Oxley legislation, using the COSO framework, as a consequence of its ultimate parent company, Hitachi Limited, being listed on the New York Stock Exchange. The key elements of the process include the following:

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

The board, through the audit and risk committee, reviews and monitors the effectiveness of the system of internal financial control through reports it receives from independent Ernst & Young LLP audits and Hitachi group reviews which monitor the Sarbanes-Oxley process. Exceptions identified during the management assessment are reported to the audit and risk committee and the parent company and remediation plans are put in place. None of the exceptions identified during the year ended 31 March 2011 have given rise to a material weakness or significant deficiency.

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

Directors' report

The board of directors present their annual report and audited financial statements for the year ended 31 March 2011.

Principal activities and business review
The principal activities of the group during the year were the provision of finance in the form of contract hire, block discounting, invoice factoring, leasing, hire purchase, personal loans, and related products and services. The information that fulfils the requirements of the business review and the likely future developments in the business of the group are included in the principal activities and strategy section on page 2 and the group business review on page 3, which are incorporated in this report by reference.

Results and dividends
The results of the group for the year ended 31 March 2011 are set out in the consolidated income statement on page 11. An interim dividend of £2,134,000 or 5p per share was paid during the year (2010: £1,707,000, 4p). The directors recommend a final dividend of 4.8p per share (2010: 6p), giving a total dividend for the year of 9.8p per share (2010: 10p). The total distribution of dividends for the year to 31 March 2011 will be £4,199,000 (2010: £4,267,000).

Donations
During the year the group gave £39,000 (2010: £26,000) for charitable purposes by way of matched (£1 for £1) funding to supplement amounts donated by employees through the group's Give As You Earn scheme and through fundraising events. Recipients included the Disasters Emergency Committee Pakistan floods appeal, Macmillan Cancer Support, BEN, Children in Need and other children's charities, the National Trust and the Japanese Red Cross. No political donations were made during the year.

Policy on payment of creditors
It is not the group's policy to follow any code or standard on the payment of suppliers. The group's policy is to settle the terms of payment with suppliers, and ensure that suppliers are made aware of them, when agreeing the terms of each transaction and to abide by the terms of payment subject to satisfactory performance by the supplier.

Trade creditor days for the group, based on the ratio of the amount owed to trade creditors at the year end to total amounts invoiced by suppliers during the year, were 36 (2010: 31).

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

The group is committed to regular and timely communication to staff of information on matters of concern to them as employees, including both briefings and written communications. The group has an intranet site which acts as the main reference point in the provision of a wide variety of information to employees. Staff briefings are held at the various sites to disseminate key information and regular team and one to one meetings are encouraged. During the year the group has maintained the arrangements aimed at ensuring that employees' views can be taken into account in making decisions which are likely to affect their interests. Employee representatives are elected as and when necessary to meet the group's consultation requirements. The group runs an annual employee survey which allows staff to provide feedback on a variety of issues within the business including pay and remuneration, communication and performance management mechanisms. The group also runs an annual internal customer services survey which allows employees to feed back to other areas of the business on their performance and service levels.

The group operates an annual bonus scheme for all staff levels where over 50% of bonus potential is based on the group and individual business unit financial performance thereby encouraging the involvement of all employees in the company's performance. Regular updates on performance ensure that all employees are aware of the financial and economic factors affecting the company's performance.

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

Directors' report (cont'd)

Environment
The group has an environment policy and acknowledges that environmental considerations form an integral part of its corporate social responsibility. The group wide environment committee meets to discuss ways in which the business units can both contribute more to their local environments by getting involved in local initiatives and also to look at ways of promoting environmental well being amongst the staff on each site. The key focus of the committee has been on recycling, conservation projects, awareness campaigns and reducing CO_2 emissions particularly within the group's own, and its customers', vehicle fleets. Employees are actively encouraged to ensure conservation of energy and resources through awareness campaigns and positive action groups.

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

D.G.Anthony (retired 24 June 2010)
G.Appelbe
N.Carter (retired 24 June 2010)
R.D.Gordon
Y.Matsushita (resigned 31 March 2011)
Y.Ohashi (appointed 24 June 2010)
S.C.Oliphant
C.Shirai

N.Carter continues to serve as a member of the company's audit and risk committee. On 1 April 2011, the board appointed H.Tozawa as a non executive director, to fill the vacancy left by Y.Matsushita. In accordance with the company's Articles of Association, each of the directors will retire by rotation at the 2011 AGM and, being eligible to be re-appointed, will offer themselves for re-appointment at that meeting.

Statement of directors' responsibilities
The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare accounts for the group in accordance with International Financial Reporting Standards (IFRS's), as adopted by the European Union, and ensure that such financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation.

IAS 1 requires that financial statements present for each financial year the group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS's.

Directors are also required to:

- Properly select and apply accounting policies in accordance with IAS 8 (Accounting policies, changes in accounting estimates and errors) and then applying 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 in IFRS's is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's position and financial performance.
- Prepare the accounts on a going concern basis unless, having assessed the ability of the group to continue as a going concern, management either intend to liquidate the entity or to cease trading, or have no realistic alternative but to do so.
- State that the group has complied with IFRS's.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies with the requirements of the Companies Act 2006.

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

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

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

Directors' report (cont'd)

Qualifying indemnity provisions
By virtue of Article 85 of the Articles of Association of the company, qualifying indemnity provision (within the meaning given by sections 234 and 235 of the Companies Act 2006) is in force at the date of this report in respect of each director of the company (and each director of its subsidiaries) and was in force throughout the year ended 31 March 2011 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
A going concern assessment has been performed at a group and statutory level. The group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 2 to 9. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the business review on pages 3 and 4. In addition, the notes to the financial statements include the group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

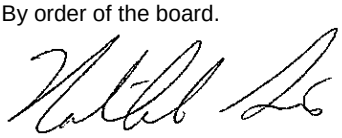
The group has considerable financial resources and we expect that we will continue to grow our assets and increase profitability in our chosen financial markets in the coming year. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors 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.

Principal risks and uncertainties
The principal risks and uncertainties that the group faces are detailed in the corporate governance statement on pages 5 and 6 and in note 28 to the financial statements.

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

By order of the board.



J.N.M.Sims
Company Secretary
9 June 2011

Independent auditor's report to the members of Hitachi Capital (UK) PLC

We have audited the financial statements of Hitachi Capital (UK) PLC for the year ended 31 March 2011 which comprise the consolidated income statement, consolidated statement of comprehensive income, statement of financial position - consolidated and company, statement of changes in equity - consolidated and company, statement of cash flows - consolidated and company and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor
As explained more fully in the directors' responsibilities statement on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report of Hitachi Capital (UK) PLC to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion:

- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 and of the group's profit for the year then ended;
- The group financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion,

- The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Robert McCracken (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
9 June 2011

Consolidated income statement

For the year ended 31 March 2011

	Note	**2011 £'000**	2010 £'000
Revenue	5	**264,287**	237,640
Finance costs		**(29,002)**	(35,022)
Depreciation on operating leased assets	10	**(77,194)**	(66,610)
Maintenance expense on contract hire vehicles		**(22,135)**	(18,056)
Other cost of sales	6	**(39,240)**	(32,217)
Cost of sales		**(167,571)**	(151,905)
Gross profit		**96,716**	85,735
Bad debts impairment charge	12	**(17,321)**	(30,163)
Administrative expenses	7	**(50,864)**	(40,567)
		(68,185)	(70,730)
Profit before additional finance items		**28,531**	15,005
Fair value (loss)/gain on derivative financial instruments	13	**(20)**	3,803
Securitisation fees	7	**(1,726)**	-
Profit before tax		**26,785**	18,808
Income tax expense	8	**(8,340)**	(4,889)
Profit after tax		**18,445**	13,919

Consolidated statement of comprehensive income

For the year ended 31 March 2011

	Note	**2011 £'000**	2010 £'000
Profit after tax		**18,445**	13,919
Other comprehensive income:			
Actuarial gain/(loss) on defined benefit pension scheme	21	**3,279**	(2,124)
Income tax effect	8	**(918)**	595
Gain on cash flow hedges taken to cash flow hedge reserve		**11,295**	4,766
Income tax effect	8	**(3,161)**	(1,335)
Recycled to income statement from cash flow hedge reserve	13	**1,179**	287
Income tax effect	8	**(330)**	(80)
Other comprehensive income for the year, net of tax		**11,344**	2,109
Total comprehensive income for the year, net of tax		**29,789**	16,028

Statement of financial position – consolidated and company

As at 31 March 2011

	Note	**Group 2011 £'000**	Group 2010 £'000	**Company 2011 £'000**	Company 2010 £'000
Assets:					
Non current assets:					
Intangible assets	11	**16,592**	20,913	**6,888**	10,030
Investment in subsidiaries	3	**-**	-	**10,903**	9,368
Property, plant and equipment	10	**329,843**	266,271	**14,377**	13,108
Loans and receivables	12	**622,708**	576,066	**868,695**	779,116
Derivative financial instruments	13	**46,732**	88,844	**46,732**	88,844
Deferred tax asset	9	**-**	709	**2,654**	5,399
Retirement benefit asset	21	**2,620**	-	**2,620**	-
		1,018,495	952,803	**952,869**	905,865
Current assets:					
Loans and receivables	12	**509,976**	419,329	**509,352**	415,736
Derivative financial instruments	13	**73,886**	48,278	**73,886**	48,278
Inventories	15	**11,852**	9,291	**287**	3,596
Trade receivables and other assets	16	**26,898**	33,129	**5,317**	6,655
Cash and cash equivalents	17	**12,485**	10,406	**-**	-
		635,097	520,433	**588,842**	474,265
Total assets		**1,653,592**	1,473,236	**1,541,711**	1,380,130
Equity and liabilities:					
Equity and reserves attributable to equity holders:					
Share capital	18	**10,669**	10,669	**10,669**	10,669
Share premium account		**15,559**	15,559	**15,559**	15,559
Retained earnings		**73,162**	57,050	**33,296**	22,975
Cash flow hedge reserve		**52**	(8,931)	**52**	(8,931)
Total equity		**99,442**	74,347	**59,576**	40,272
Non current liabilities:					
Interest bearing borrowings	14	**460,343**	453,739	**460,343**	453,739
Derivative financial instruments	13	**3,033**	5,009	**3,033**	5,009
Other liabilities	22	**11,788**	10,934	**-**	-
Provisions	20	**1,673**	5,518	**300**	322
Deferred tax liability	9	**5,241**	-	**-**	-
Retirement benefit obligation	21	**-**	1,331	**-**	1,331
		482,078	476,531	**463,676**	460,401
Current liabilities:					
Bank overdrafts	17	**3,558**	5,372	**3,558**	5,372
Interest bearing borrowings	14	**957,496**	831,131	**957,496**	831,131
Derivative financial instruments	13	**1,349**	4,592	**1,349**	4,592
Current tax liability		**2,556**	2,631	**1,636**	1,349
Provisions	20	**13,483**	12,520	**6,860**	478
Trade and other payables	22	**93,630**	66,112	**47,560**	36,535
		1,072,072	922,358	**1,018,459**	879,457
Total liabilities		**1,554,150**	1,398,889	**1,482,135**	1,339,858
Total equity and liabilities		**1,653,592**	1,473,236	**1,541,711**	1,380,130

The financial statements were approved by the board, authorised for issue on 9 June 2011 and signed on its behalf by:

C.Shirai
Chief Executive

R.D.Gordon
Managing Director

Statement of changes in equity – consolidated and company

For the year ended 31 March 2011

	Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Cash flow hedge reserve £'000	Total £'000
Group:						
At 31 March 2009		**10,669**	**15,559**	**46,386**	**(12,569)**	**60,045**
Profit for the period		-	-	13,919	-	13,919
Other comprehensive income		-	-	(1,529)	3,638	2,109
Total comprehensive income		-	-	12,390	3,638	16,028
Dividends	19	-	-	(1,707)	-	(1,707)
Other		-	-	(19)	-	(19)
At 31 March 2010		**10,669**	**15,559**	**57,050**	**(8,931)**	**74,347**
Profit for the period		-	-	18,445	-	18,445
Other comprehensive income		-	-	2,361	8,983	11,344
Total comprehensive income		-	-	20,806	8,983	29,789
Dividends	19	-	-	(4,694)	-	(4,694)
At 31 March 2011		**10,669**	**15,559**	**73,162**	**52**	**99,442**
Company:						
At 31 March 2009		**10,669**	**15,559**	**17,780**	**(12,569)**	**31,439**
Profit for the period		-	-	11,076	-	11,076
Other comprehensive income		-	-	(1,529)	3,638	2,109
Total comprehensive income		-	-	9,547	3,638	13,185
Dividends	19	-	-	(1,707)	-	(1,707)
Liquidation of subsidiary		-	-	(2,645)	-	(2,645)
At 31 March 2010		**10,669**	**15,559**	**22,975**	**(8,931)**	**40,272**
Profit for the period		-	-	12,654	-	12,654
Other comprehensive income		-	-	2,361	8,983	11,344
Total comprehensive income		-	-	15,015	8,983	23,998
Dividends	19	-	-	(4,694)	-	(4,694)
At 31 March 2011		**10,669**	**15,559**	**33,296**	**52**	**59,576**

Statement of cash flows – consolidated and company

For the year ended 31 March 2011

	Note	**Group 2011 £'000**	Group 2010 £'000	**Company 2011 £'000**	Company 2010 £'000
Operating activities:					
Profit before tax		**26,785**	18,808	**18,928**	14,258
Non cash adjustment to reconcile profit before tax to net cash flows:					
Movements in property, plant and equipment	10	**75,378**	68,255	**2,327**	5,419
Movements in intangible assets	11	**6,128**	2,779	**4,321**	1,621
Fair value loss/(gain) on derivative financial instruments	13	**1,199**	(3,516)	**1,199**	(3,516)
Defined benefit pension scheme charge to income statement	21	**401**	604	**401**	604
Write down of investment in subsidiary		**-**	(19)	**(1,535)**	4,267
Working capital adjustments:					
Increase in receivables		**(131,060)**	(70,326)	**(181,859)**	(106,802)
Increase/(decrease) in payables		**25,491**	(13,664)	**17,385**	18,871
(Decrease)/increase in inventories		**(2,561)**	(3,024)	**3,309**	(3,124)
Cash contributions to defined benefit pension scheme	21	**(1,073)**	(1,131)	**(1,073)**	(1,131)
Income tax (paid)/received		**(6,874)**	(3,939)	**(7,650)**	1,549
Net cash flows from/(used in) operating activities		**(6,186)**	(5,173)	**(144,247)**	(67,984)
Investing activities:					
Purchase of property, plant and equipment:					
Operating leased assets	10	**(200,322)**	(120,382)	**(5,904)**	(6,021)
Other property, plant and equipment	10	**(1,982)**	(970)	**(750)**	(335)
Capitalised software purchase & development costs	11	**(1,787)**	(1,098)	**(1,179)**	(714)
Proceeds from sale of property, plant and equipment:					
Operating leased assets		**63,018**	51,716	**3,058**	1,753
Other property, plant and equipment		**336**	254	**-**	-
Payments to acquire intangible assets	11	**(20)**	(115)	**-**	-
Net cash flows used in investing activities		**(140,757)**	(70,595)	**(4,775)**	(5,317)
Financing activities					
Dividends paid to shareholders	19	**(4,694)**	(1,707)	**(4,694)**	(1,707)
Issue of medium term notes		**226,613**	283,152	**226,613**	283,152
Redemption of medium term notes		**(180,907)**	(383,659)	**(180,907)**	(383,659)
Increase in bank borrowings outstanding		**198,066**	8,421	**198,066**	8,421
(Decrease)/increase in commercial paper outstanding		**(113,271)**	49,197	**(113,271)**	49,197
Increase in funding from securitised receivables		**25,029**	117,793	**25,029**	117,793
Net cash flows from financing activities		**150,836**	73,197	**150,836**	73,197
Net increase/(decrease) in cash and bank overdrafts		**3,893**	(2,571)	**1,814**	(104)
Cash and bank overdrafts at beginning of year		**5,034**	7,605	**(5,372)**	(5,268)
Cash and bank overdrafts at end of year		**8,927**	5,034	**(3,558)**	(5,372)
Current assets – cash and cash equivalents		**12,485**	10,406	**-**	-
Current liabilities – bank overdrafts	17	**(3,558)**	(5,372)	**(3,558)**	(5,372)
Cash and bank overdrafts at end of year		**8,927**	5,034	**(3,558)**	(5,372)

Notes to the consolidated financial statements

For the year ended 31 March 2011

1. General information

Hitachi Capital (UK) PLC is a limited company incorporated in the United Kingdom. The address of the registered office is given at the end of this report. The nature of the group's operations and its principal activities are set out in note 4. The group's directors are of the opinion that the financial statements present fairly the financial position, financial performance and cash flows for the year ended 31 March 2011. The company's immediate parent undertaking is Hitachi Capital Corporation. Hitachi Capital Corporation is ultimately owned by Hitachi Limited, both incorporated in Japan.

2. Significant accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with IFRS's, as adopted for use in the European Union, and interpretations of the International Financial Reporting Interpretations Committee 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 statement of comprehensive income or income statement in these financials. 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. A full discussion of going concern is included in the directors' report on page 9.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated, except that the group has adopted the following new and amended IFRS's and IFRIC interpretations as of 1 April 2010:

- IAS 1 presentation of financial statements (revised)
- IAS 17 leases
- IAS 38 intangible assets
- IAS 39 financial instruments: recognition and measurement
- IFRS 3 business combinations (revised)
- IFRIC 9 embedded derivatives

Apart from some additional disclosures in certain cases, adoption of the above standards, interpretations and amendments did not have any material effect on the financial performance or position of the group.

Standards, interpretations and amendments, which might be relevant to the group and issued but not yet effective up to the date of issuance of the group's financial statements are listed below. They will be adopted when required.

- IFRS 9 financial instruments (classification and measurement), effective 1 January 2013
- IFRS 10 consolidated financial statements, effective 1 January 2013
- IFRS 11 joint arrangements, effective 1 January 2013
- IFRS 12 disclosure of interests in other entities, effective 1 January 2013
- IFRS 13 fair value measurement, effective 1 January 2013

Apart from some additional disclosures in certain cases, adoption of the above standards, interpretations and amendments are not expected to have any material effect on the financial performance or position of the group.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the group (its subsidiaries) from the date on which the group acquires the power to control, up to the date that such control ceases. Control is achieved where the group has the power, directly or indirectly, to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Special purpose entities are consolidated when the substance of the relationship between the group and the special purpose entity indicates that the group effectively controls the entity. Until 30 March 2011, the group consolidated a special purpose entity, Securitisation of Financial Assets Limited (SOFA), with a non-coterminous reporting date of 31 May. SOFA was not owned by the group but consolidated due to significant economic benefit being derived from the operation. The financial position and results of SOFA for the period ended 30 March 2011 have been consolidated within the group's financial statements. On 30 March 2011, the securitisation programme with SOFA, The Royal Bank of Scotland (RBS) and Mizuho was terminated and a new arrangement entered directly with RBS. SOFA is not a party to the new arrangement and the group does not derive any benefit from SOFA's operation so it is no longer consolidated.

The purchase method of accounting has been adopted, whereby the results of subsidiaries acquired or disposed of in the year are included in the consolidated income statement from the date control of the net assets and operations are transferred to or from the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The accounting policies of subsidiaries are consistent with the policies adopted by the group. Transactions that involve the sale of financial assets where there is a continuing control over, and financial interest in, the assets, such as the securitisation programme, are not recognised as a sale of assets. Consequently these assets are included in the individual company and consolidated balance sheets as assets according to their classification before sale, and corresponding loan liabilities recognised in the amount equal to the cash received in the transactions involved.

Notes to the consolidated financial statements

For the year ended 31 March 2011

2. Significant accounting policies (cont'd)

(c) Goodwill

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. Goodwill is reviewed annually for impairment (or more frequently where there is an indication that it may be impaired) and as such is stated at cost less any provision for impairment in value. Goodwill is allocated to cash generating units for the purpose of impairment testing. Goodwill is not amortised.

(d) Investment in subsidiaries

Investments in subsidiaries are stated at cost. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of property and equipment. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the group and the cost of the item can be measured reliably.

Maintenance and repairs, which do not meet these criteria, are charged against income as incurred. Operating leased assets are reviewed for impairment annually whereas the carrying values of all other tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation is calculated to write off cost less residual value, on a straight line basis, over the estimated useful life of the assets as follows:

Freehold buildings	50 years
Leasehold improvements	Remaining term of the lease
Fixtures, fittings and computer equipment	Four years
Motor vehicles	Three to six years
Operating leased assets	Term of the lease

There has been no change to useful lives from those applied in the previous financial year. Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement. Where the group has an interest in the residual value of certain operating leased assets, these values are reviewed on a regular basis and, where necessary, any variance from the exposure recognised by the group charged or credited to the income statement over the remaining lives of the operating leases of the assets concerned.

(f) 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. Net realisable value takes into account prevailing market values and cost of sale.

(g) Internally generated intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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.
- 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 each reporting date. 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.

Notes to the consolidated financial statements

For the year ended 31 March 2011

2. Significant accounting policies (cont'd)

(h) Financial assets

Financial assets are recognised and derecognised on trade date and are initially measured at fair value. Financial assets not at fair value through profit and loss are initially measured at fair value plus transaction costs.

Subsequent to initial recognition investments in subsidiaries are measured at cost.

Financial assets are classified as either financial assets 'at fair value through profit or loss', 'held to maturity investments', 'available for sale' or 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The group has no financial assets in the 'held to maturity investments' or 'available for sale' categories.

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/hire purchase agreements are recognised in accordance with the group's accounting policy on leases (see note 2(m) below).

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly 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 the profit and loss are assessed for indicators of impairment at each quarter end.

For finance leases, hire purchase agreements and other 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. Recoverable amounts are assessed with reference to the expected future cash flows on the loan arrangements.

For instalment 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.

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 the possibility of 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), then the income statement is charged with the write down of the asset to its revised carrying value, and any previous provision made against the asset released to the income statement.

Notes to the consolidated financial statements

For the year ended 31 March 2011

2. Significant accounting policies (cont'd)

(i) Financial liabilities

Financial liabilities are shown on the balance sheet at either fair value and revalued through the profit and loss account ('fair value through profit and loss') or at amortised cost including expenses ('other financial liabilities').

Interest bearing borrowings

Interest bearing borrowings are normally classified as 'other financial liabilities' and 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, see note 2(j), they are recorded at fair value, net of transaction costs.

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

(j) Derivative financial instruments

The group enters into a variety of derivative financial instruments to hedge its exposure to interest rate and foreign exchange risk including cross currency interest rate 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 or interest rate risk of firm commitments (cash flow hedges). The group also employs 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 on the date the derivative contract is entered into and are subsequently 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 hedging relationship.

For derivatives where hedge accounting is not applied, the fair value movement is recorded in profit and loss 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.

The fair values of hedging derivatives are classified as a non current asset or a non current liability if the remaining life of the derivative is more than 12 months and as a current asset or a current liability if the remaining life of the derivative is less than 12 months.

(k) Hedge accounting

On the date that a derivative contract is designated as a hedging instrument, the group designates the derivative as one of the following:

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

A hedging relationship exists for the purposes of IAS 39 where 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 the reporting period.
- 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.

Hedge accounting requires that the hedging instrument be measured at fair value. The fair value of a derivative hedging instrument is calculated in the same manner as the fair value of a trading instrument. Hedge accounting is discontinued if the hedging relationship is no longer effective 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 hedging reserve in equity are detailed in the statement of changes in equity on page 13.

Notes to the consolidated financial statements

For the year ended 31 March 2011

2. Significant accounting policies (cont'd)

(k) Hedge accounting (cont'd)

Fair value hedge

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss 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 and the hedged item are recognised in the income statement as they occur. Fair value adjustments relating to the hedged 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 adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the profit and loss from that date over the debt instrument's remaining life.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred as a separate component of equity. The gain or loss during the period relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled to profit or loss in the periods when the 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 deferred in equity is transferred to the income statement unless the hedged item is a forecast transaction. The deferred gain or loss on a forecast transaction is transferred to the income statement when the forecast transaction occurs.

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

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.

Revenue from lease and hire purchase agreements is recognised in accordance with the group's accounting policy on leases (see note 2(m) below).

Revenue from insurance activities is recognised in accordance with the group's accounting policy on insurance (see note 2(n) below).

(m) Lease and hire purchase

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.
Amounts due from lessees under finance lease/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. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

Notes to the consolidated financial statements
For the year ended 31 March 2011

2. Significant accounting policies (cont'd)

(n) Insurance
Insurance premiums, net of reinsurance and an allowance for cancellations, are recognised over the period of the policy written on a basis which reflects the expected profile of the risk undertaken. Acquisition costs, which represent commission and other related expenses, are amortised on the same basis and over the same period as the related premiums, subject to recoverability. Provision is made for the estimated cost of reported claims not settled at the reporting date and for estimated claims incurred but not reported at that date. Provision is also made, where the expected value of claims attributable to policies in force at the reporting date exceeds the net unearned premiums on these policies.

The group performs liability adequacy testing on its claims liabilities to ensure that the carrying amount of its insurance liabilities, including the provision for unearned reinsurance premiums net of related deferred acquisition costs, is sufficient in view of estimated future cash flows.

The group ceded reinsurance in the normal course of business for the purpose of limiting its net loss potential. Assets, liabilities, income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the group from its direct obligations to the policyholders.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid and are included in trade and other receivables in the statement of financial position.

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

(o) Foreign currency translation
The presentational and functional currency of the group's subsidiaries, as well as the parent company, is UK Sterling, which is the currency of the primary environment in which the group operates. Transactions in currencies other than UK Sterling 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.

In order to hedge its exposure to foreign exchange risks, the group mostly enters into cross currency and interest rate swaps, the accounting policies of which are set out in note 2(j) and 2(k).

(p) Retirement benefit costs
The group operates a defined benefit pension scheme and a defined contribution pension scheme. The pension cost relating to the defined benefit scheme is assessed in accordance with the advice of independent qualified actuaries using the projected unit credit method which attributes entitlements to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations).

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

(q) Taxation
Current tax payable is based on taxable profit for the year, which differs from profit before tax as reported in the income statement because it excludes items of income or expense that are either taxable or deductible in future years or never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated using the balance sheet liability method. 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 profits will be available to allow all or part of the asset to be recovered.

Notes to the consolidated financial statements

For the year ended 31 March 2011

2. Significant accounting policies (cont'd)

(q) Taxation (cont'd)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(r) Dividends

Dividends proposed by the board of directors and unpaid at year end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting.

(s) Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation and judgement uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position do not have specific market prices, they are determined using a model. The inputs to this model are derived from observable market data. The judgements include the determination of the observable market inputs used to construct the yield curve in each currency. The valuation of financial instruments is described in more detail in note 28.

Impairment of non financial assets (goodwill, investments and operating lease residual values)

The group assesses in accordance with IAS 36 whether there are any indicators of impairment for all non financial assets at each reporting date. Goodwill is tested for impairment annually and at any other times when such indicators exist. Operating lease residual values are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of financial assets (loans and receivables)

The group assesses whether there are any indicators of impairment for all financial assets at each reporting date. Where possible, management makes estimates, based on all available information regarding the future recoverability of loans and receivables, on an individual account basis. Estimates of future cash flows are discounted, if material, and any difference with the carrying value is provided for. Where it is not possible or feasible to perform this review on an individual account basis, estimates of future cash flows are made based on historical statistics and any other relevant information available.

Acquired intangibles

Intangibles such as company name and customer lists are amortised over their useful lives. Further details are given in note 11.

Retirement benefit obligation

The cost of the defined benefit scheme and obligation is determined using actuarial valuations. This involves making assumptions about discount rates, expected rates of returns on assets, 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 21.

Taxation (and deferred tax)

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. Tax computations for all periods ending before 31 March 2009 have been agreed with HM Revenue and Customs.

Insurance provisions and related deferred insurance commissions

The key estimations involved for insurance provisions are discussed in item 2(n) above. Further details are also provided in note 24. Future claim liabilities are reserved at the 90th percentile, which is in line with the ABI SORP on accounting for an insurance business in run off.

Notes to the consolidated financial statements

For the year ended 31 March 2011

2. Significant accounting policies (cont'd)

(s) Critical accounting estimates and judgements (cont'd)

Effective interest rate

In calculating the effective interest rate in the Consumer Finance business, the total cash flows receivable at the inception of each agreement (represented by retailer subsidies or commissions and end customer interest) are reduced to take account of expected settlements during deferred periods, early repayments and early terminations.

Other provisions

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

(t) Cash and cash equivalents

Cash and cash equivalents disclosed in the cash flow statement consist of cash on hand, deposits held on call with banks and other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown in current liabilities on the statement of financial position.

(u) Securitisation transactions

Certain group undertakings have issued debt securities or have entered into funding arrangements with lenders in order to finance specific loans and advances to customers. All financial assets continue to be held on the group statement of financial position, and a liability recognised for the proceeds of the funding transaction, unless:

- Substantially all the risks and rewards associated with the financial instruments have been transferred, in which case, the assets are derecognised in full.
- If a significant portion, but not all, of the risks and rewards have been transferred, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised only to the extent of the group's continuing involvement.

Where either of the above applies to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

(v) Segmental reporting

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments.

(w) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to their present value.

(x) Profit sharing and bonus plans

The group recognises a liability and an expense for bonuses and profit sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group undertakes to recognise a provision where various targets set for staff have been achieved, or where there is a past practice that has created a constructive obligation.

3. Investment in subsidiaries (company)

	2011	2010
	£'000	£'000
At 1 April	**9,368**	16,280
Capital contributions	**4,000**	-
Write downs	**(2,465)**	(6,912)
At 31 March	**10,903**	9,368

The 2011 capital contributions were made to Hitachi Capital Insurance Europe Limited and resulted in the write down to reduce the investment to the level of equity in the subsidiary. The 2010 write down reflects the liquidation of other subsidiaries. Write downs in both years resulted in intercompany eliminations and therefore had no impact on the group financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2011

3. Investment in subsidiaries (company) (cont'd)

The company has the following wholly owned subsidiaries:

	Place of incorporation and operation	Activity
Hitachi Capital Vehicle Solutions Limited	UK	Contract hire
Hitachi Capital Insurance Europe Limited	Ireland & UK	Insurance
Hitachi Capital Invoice Finance Limited	UK	In members' voluntary liquidation *

* The business of Hitachi Capital Invoice Finance Limited was transferred to Hitachi Capital (UK) PLC with effect from 31 December 2009. Hitachi Capital Invoice Finance Limited entered members' voluntary liquidation on 30 March 2010 and is expected to be dissolved in July 2011.

All subsidiaries are directly held by the company. In addition, the group was required to consolidate SOFA, the company's special purpose entity, the principal activity of which was to act as a vehicle for the group's securitised operations until 30 March 2011. Due to the fact that SOFA was an SPE for the purpose of securitisation, and that transactions/sales to SOFA did not meet IAS 39 derecognition criteria, there has been no material change in the state of affairs as a result of HCUK no longer consolidating SOFA.

Abridged versions of the subsidiary results can be found in note 4 of these financial statements.

4. Operating segment information

The segment information has been prepared in accordance with IFRS's and the accounting policies are the same as the policies used in these consolidated financial statements. This is in accordance with the measures reported to decision makers for the purpose of allocating resources to the segments and assessing their performance.

Major customers
No revenues earnt from transactions with a single external customer (including groups under common control) amount to 10% or more of the group's revenues in either the 2011 or 2010 reporting periods.

Geographical analysis
As the activities of the group are predominantly carried out in the UK no geographical analysis is presented.

Operating segments
For management purposes, the group is organised into a corporate centre and five business units based on their products and services: Consumer Finance, Vehicle Solutions, Business Finance, Invoice Finance and Insurance Europe. These units are the basis on which the group reports its primary segment information. Inter-segment sales are charged at prevailing market rates.

The principal activities of each business unit are as follows:

Consumer Finance (HCCF)	–	retail point of sale
Vehicle Solutions (HCVS)	–	vehicle management solutions and fleet management services
Business Finance (HCBF)	–	medium term asset finance
Invoice Finance (HCIF)	–	factoring
Insurance Europe (HCIE)	–	direct insurer for payment protection and guaranteed asset protection
Corporate	–	head office, including hedging activities, and group eliminations

Notes to the consolidated financial statements

For the year ended 31 March 2011

4. Operating segment information (cont'd)

Year ended 31 March 2011	**HCCF £'000**	**HCVS £'000**	**HCBF £'000**	**HCIF £'000**	**HCIE £'000**	**Corporate £'000**	**Group £'000**
Revenue:							
External customer	89,509	133,570	24,969	6,413	9,826	-	264,287
Inter-segment	203	289	-	-	19	(511)	-
Total revenue	**89,712**	**133,859**	**24,969**	**6,413**	**9,845**	**(511)**	**264,287**
Results:							
Finance (costs)/income	(16,897)	(5,525)	(5,183)	(588)	53	(862)	(29,002)
Depreciation	(150)	(74,290)	(3,409)	(21)	(4)	(231)	(78,105)
Amortisation	(412)	(1,788)	(302)	(7)	(13)	(632)	(3,154)
Goodwill impairment	-	-	-	-	-	(2,767)	(2,767)
Residual value impairment	-	(1,998)	(757)	-	-	-	(2,755)
Bad debt impairment	(11,750)	(415)	(4,962)	(194)	-	-	(17,321)
Securitisation fees	-	-	-	-	-	(1,726)	(1,726)
Fair value loss on derivative financial instruments	-	-	-	-	-	(20)	(20)
Profit/(loss) before tax	**22,146**	**11,449**	**1,301**	**1,989**	**(3,544)**	**(6,556)**	**26,785**
Assets	**866,204**	**355,263**	**200,553**	**61,325**	**16,462**	**153,785**	**1,653,592**
Liabilities	**809,395**	**312,438**	**191,386**	**59,672**	**8,668**	**172,591**	**1,554,150**
Other disclosures:							
Capital expenditure	377	195,650	6,031	11	-	235	202,304
Income tax (expense)/credit	(7,359)	(3,032)	(432)	(661)	965	2,179	(8,340)

Year ended 31 March 2010	HCCF £'000	HCVS £'000	HCBF £'000	HCIF £'000	HCIE £'000	Corporate £'000	Total £'000
Revenue:							
External customer	61,605	117,071	36,544	5,286	17,134	-	237,640
Inter-segment	359	268	-	-	77	(704)	-
Total revenue	61,964	117,339	36,544	5,286	17,211	(704)	237,640
Results:							
Finance (costs)/income	(15,923)	(7,387)	(11,033)	(496)	104	(287)	(35,022)
Depreciation	(137)	(63,520)	(3,572)	(16)	(17)	(173)	(67,435)
Amortisation	(350)	(1,140)	(315)	(3)	(17)	(940)	(2,765)
Residual value impairment	-	(770)	265	-	-	-	(505)
Bad debt impairment	(13,334)	(1,205)	(15,241)	(383)	-	-	(30,163)
Fair value gain on derivative financial instruments	-	-	-	-	-	3,803	3,803
Profit/(loss) before tax	14,342	10,753	(4,533)	1,001	(5,711)	2,956	18,808
Assets	679,676	283,965	288,554	45,636	22,601	152,804	1,473,236
Liabilities	637,654	247,044	280,256	45,311	16,229	172,395	1,398,889
Other disclosures:							
Capital expenditure	155	114,984	6,051	21	5	136	121,352
Income tax (expense)/credit	(3,142)	(3,066)	993	(271)	1,581	(984)	(4,889)

5. Revenue

	Note	**2011 £'000**	2010 £'000
Instalment finance		**85,244**	57,365
Leasing – operating leases		**128,673**	114,130
Leasing – finance leases		**2,513**	3,731
Hire purchase agreements		**16,202**	25,256
Other financing activities		**6,124**	6,126
Insurance activities	24	**9,749**	17,141
Fees and commissions		**15,782**	13,891
Total revenue		**264,287**	237,640

Notes to the consolidated financial statements

For the year ended 31 March 2011

6. Other cost of sales

	Note	**2011 £'000**	2010 £'000
Commission expense		**25,972**	24,553
Net insurance claims incurred	24	**3,729**	7,615
CCA 1974 section 75 charges and provisions		**7,348**	840
Impairment of operating leased assets	10	**2,755**	505
Inventory and other expenses		**(564)**	(1,296)
Total other cost of sales		**39,240**	32,217

7. Administrative expenses and auditors' remuneration

	2011 £'000	2010 £'000
Employee benefits	**25,282**	23,437
Other staff related	**2,992**	2,355
Premises and office	**5,980**	4,487
IT	**4,608**	3,702
Goodwill write off and customer lists amortisation	**4,530**	1,501
Marketing	**1,358**	600
Auditors' remuneration:		
Audit services	**534**	544
Other services	**38**	33
Other professional	**5,095**	2,345
Other	**447**	1,562
Total	**50,864**	40,567

In addition to the above, securitisation fees were incurred in the year to 31 March 2011 following a request from the parent company to restructure the programme, which did not significantly change the group's funding or reporting; hence the fees incurred for the 12 month securitisation were written off and are separately reported in the income statement.

The average number of employees (including executive directors) was:

	2011	2010
Management	**85**	71
Administrative	**386**	392
Sales	**72**	55
Total	**543**	518

8. Income tax

The major components of the group's income tax for the years ended 31 March 2011 and 2010 are:

	2011 £'000	2010 £'000
Current income tax:		
Charge for the year	**9,090**	6,796
Adjustment in respect of prior years	**(2,291)**	(2,424)
Total	**6,799**	4,372
Deferred tax:		
Origination and reversal of temporary differences in the current year	**(810)**	(1,479)
Adjustment in respect of prior years	**2,351**	1,996
Total	**1,541**	517
Tax charge on profit	**8,340**	4,889

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

	Note	**2011 £'000**	2010 £'000
Revaluation of defined benefit pension scheme		**918**	(595)
Net gain on revaluation of cash flow hedges		**3,491**	1,415
Total tax charged on items taken directly to equity	9	**4,409**	820

Notes to the consolidated financial statements

For the year ended 31 March 2011

8. Income tax (cont'd)

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

	2011	2010
	£'000	£'000
Profit before tax	**26,785**	18,808
Tax on profit at UK corporation tax rate of 28% (2010: 28%)	**7,500**	5,267
Increase/(decrease) resulting from:		
Adjustments in respect of prior years	**60**	(428)
Disallowable expenses and other adjustments	**87**	(166)
Amortisation of customer lists	**493**	420
Write down of goodwill	**762**	-
Release of provision for uncertain tax positions	**(160)**	(204)
Impact of rate change on net deferred tax liabilities	**(402)**	-
Tax charge	**8,340**	4,889

The UK rate of corporation tax reduced from 28% to 26% from 1 April 2011. As a result the net deferred tax on the balance sheet was recalculated at 26%, rather than 28%, as required by IFRS. This created a reduction in tax charged in the year through the income statement of £402k and a further £1k in respect of derivative financial instruments was charged to equity.

9. Deferred tax

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

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

The following are the major deferred tax assets/(liabilities) recognised and movements thereon:

	Accelerated tax depreciation £'000	**Retirement benefit obligations £'000**	**Derivative financial instruments £'000**	**Other £'000**	**Total £'000**
Group:					
At 31 March 2009	(3,223)	(74)	5,343	-	2,046
Charge to income statement	(304)	(148)	(65)	-	(517)
Credit/(charge) to equity	-	595	(1,415)	-	(820)
At 31 March 2010	(3,527)	373	3,863	-	709
Credit/(charge) to income statement	(1,603)	(136)	(88)	286	(1,541)
Charge to equity	-	(918)	(3,491)	-	(4,409)
At 31 March 2011	**(5,130)**	**(681)**	**284**	**286**	**(5,241)**
Company:					
At 31 March 2009	2,040	(74)	5,343	-	7,309
Charge to income statement	(877)	(148)	(65)	-	(1,090)
Credit/(charge) to equity	-	595	(1,415)	-	(820)
At 31 March 2010	1,163	373	3,863	-	5,399
Credit/(charge) to income statement	1,888	(136)	(88)	-	1,664
Charge to equity	-	(918)	(3,491)	-	(4,409)
At 31 March 2011	**3,051**	**(681)**	**284**	**-**	**2,654**

Notes to the consolidated financial statements

For the year ended 31 March 2011

10. Property, plant and equipment

Group	Freehold property £'000	Motor vehicles £'000	Fixtures, fittings, computers and leasehold improvements £'000	Operating leased assets £'000	Total £'000
Cost					
At 31 March 2009	505	812	6,784	392,866	400,967
Additions	-	490	480	120,382	121,352
Disposals	-	(237)	(1,312)	(112,409)	(113,958)
Transfer to inventory	-	-	-	(7,124)	(7,124)
At 31 March 2010	505	1,065	5,952	393,715	401,237
Additions	-	883	1,099	200,322	202,304
Disposals	-	(682)	(2,508)	(123,596)	(126,786)
Stock movements	-	-	-	3,879	3,879
At 31 March 2011	**505**	**1,266**	**4,543**	**474,320**	**480,634**
Accumulated depreciation and impairment					
At 31 March 2009	40	312	4,925	130,546	135,823
Charge for the year	6	198	621	66,610	67,435
Impairment loss	-	-	-	505	505
Eliminated on disposals	-	(2)	(1,292)	(61,902)	(63,196)
Transfer to inventory	-	-	-	(5,601)	(5,601)
At 31 March 2010	46	508	4,254	130,158	134,966
Charge for the year	6	217	688	77,194	78,105
Impairment loss	-	-	-	2,755	2,755
Eliminated on disposals	-	(392)	(2,429)	(63,600)	(66,421)
Stock movements	-	-	-	1,386	1,386
At 31 March 2011	**52**	**333**	**2,513**	**147,893**	**150,791**
Carrying amount					
At 31 March 2010	459	557	1,698	263,557	266,271
At 31 March 2011	**453**	**933**	**2,030**	**326,427**	**329,843**

The transfer to inventory recognised in operating leased assets in the financial year ended 31 March 2010 relates to those agreements with mature residual values or that involve repossessed assets; these have been reclassified to inventory from property, plant and equipment.

The impairment losses recognised in operating leased assets in the financial years ended 31 March 2011 and 31 March 2010 are mainly as a result of the fall in used car prices.

The group 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, mainly in the Vehicle Solutions business unit. The key assumptions used in determining the value in use are the discount rate, disposal performance over market guides and costs of disposal.

At 31 March 2011, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £41,779,000 (2010: £23,416,000), which is made up predominantly of 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 of £77,194,000 (2010: £66,610,000) relating to operating leased assets was included in cost of sales. Depreciation expense relating to the remainder of the group's property, plant and equipment of £911,000 (2010: £825,000) was included in administrative expenses.

Notes to the consolidated financial statements

For the year ended 31 March 2011

10. Property, plant and equipment (cont'd)

Company	Freehold property £'000	Fixtures, fittings, computers and leasehold improvements £'000	Operating leased assets £'000	Total £'000
Cost				
At 31 March 2009	150	2,842	24,834	27,826
Additions	-	335	6,021	6,356
Disposals	-	(341)	(6,181)	(6,522)
Transfer from subsidiary (HCIF)	-	297	-	297
Transfer from subsidiary (HCIE)	-	57	-	57
Transfer to inventory	-	-	(7,124)	(7,124)
At 31 March 2010	150	3,190	17,550	20,890
Additions	-	750	5,904	6,654
Disposals	-	(864)	(7,658)	(8,524)
Stock movements	-	-	3,879	3,879
At 31 March 2011	**150**	**3,076**	**19,675**	**22,901**
Accumulated depreciation and impairment				
At 31 March 2009	19	1,624	12,249	13,892
Charge for the year	1	383	3,501	3,885
Impairment gain	-	-	(265)	(265)
Eliminated on disposals	-	(341)	(4,041)	(4,382)
Transfer from subsidiary (HCIF)	-	252	-	252
Transfer to inventory	-	-	(5,600)	(5,600)
At 31 March 2010	20	1,918	5,844	7,782
Charge for the year	1	478	3,332	3,811
Impairment loss	-	-	757	757
Eliminated on disposals	-	(820)	(4,392)	(5,212)
Stock movements	-	-	1,386	1,386
At 31 March 2011	**21**	**1,576**	**6,927**	**8,524**
Carrying amount				
At 31 March 2010	130	1,272	11,706	13,108
At 31 March 2011	**129**	**1,500**	**12,748**	**14,377**

At 31 March 2011, the company had no contractual commitments to acquire property, plant and equipment (2010: none).

Notes to the consolidated financial statements

For the year ended 31 March 2011

11. Intangible assets

Group	Capitalised software £'000	Goodwill £'000	Other intangibles £'000	Total £'000
Cost				
At 31 March 2009	10,048	19,602	-	29,650
Additions	1,098	115	-	1,213
Disposals	(528)	-	-	(528)
Reclassification of company names and customer lists	-	(3,264)	3,264	-
At 31 March 2010	10,618	16,453	3,264	30,335
Additions	1,787	20	-	1,807
Disposals	(1,388)	-	-	(1,388)
At 31 March 2011	**11,017**	**16,473**	**3,264**	**30,754**
Accumulated amortisation				
At 31 March 2009	7,170	-	-	7,170
Charge for the year	1,264	-	1,501	2,765
Eliminated on disposals	(513)	-	-	(513)
At 31 March 2010	7,921	-	1,501	9,422
Charge for the year	1,392	-	1,763	3,155
Eliminated on disposals	(1,182)	-	-	(1,182)
Impairment charge	-	2,767	-	2,767
At 31 March 2011	**8,131**	**2,767**	**3,264**	**14,162**
Carrying amount				
At 31 March 2010	2,697	16,453	1,763	20,913
At 31 March 2011	**2,886**	**13,706**	**-**	**16,592**

The carrying amount of goodwill is allocated by business segment as follows:

Group	Consumer Finance £'000	Vehicle Solutions £'000	Business Finance £'000	Invoice Finance £'000	Total £'000
At 31 March 2010	400	8,800	2,367	4,886	16,453
At 31 March 2011	**-**	**8,820**	**-**	**4,886**	**13,706**

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

At 31 March 2011, neither the group nor the company had any contractual commitments for the acquisition of intangible assets (2010: none).

Goodwill impairment charges

During the year, impairment charges were made against the goodwill allocated to Consumer Finance and Business Finance.

The goodwill allocated to Consumer Finance related to the 2000 acquisition of Credit Solutions (Northern) Limited, rebranded as Credit Management in 2003. The business was closed to external clients during 2007/08 to focus predominantly on the arrears and collections of Consumer Finance. Having ceased as a separate business unit and been absorbed into the Consumer Finance business, Hitachi Capital Credit Management Limited was liquidated in 2009. During the early part of this reporting year, the management and processes attributable to Consumer Finance collections were altered to such an extent that the goodwill was deemed to be impaired and was subsequently written down in full.

The goodwill allocated to Business Finance related to the 2004 acquisition of Industrial Equipment Finance Limited, which provided an established broker division and introduced the group to new markets, particularly aviation. The combined business unit built on the established broker network and also became a leading provider of aviation finance. A full strategic review led by senior management of Business Finance resulted in the decision being made in the early part of this reporting year to exit from the broker and aviation businesses. The goodwill was therefore deemed to be impaired and was subsequently written down in full.

Notes to the consolidated financial statements

For the year ended 31 March 2011

11. Intangible assets (cont'd)

Company	Capitalised software £'000	Goodwill £'000	Other intangibles £'000	Total £'000
Cost				
At 31 March 2009	6,919	8,493	-	15,412
Additions	714	-	-	714
Disposals	(452)	-	-	(452)
Transfer from subsidiary (HCIF)	13			13
Reclassification of customer lists	-	(840)	840	-
At 31 March 2010	7,194	7,653	840	15,687
Additions	1,179	-	-	1,179
Disposals	(1,241)	-	-	(1,241)
At 31 March 2011	**7,132**	**7,653**	**840**	**15,625**
Accumulated amortisation				
At 31 March 2009	4,485	-	-	4,485
Charge for the year	1,047	-	560	1,607
Eliminated on disposals	(438)	-	-	(438)
Transfer from subsidiary (HCIF)	3	-	-	3
At 31 March 2010	5,097	-	560	5,657
Charge for the year	1,073	-	280	1,353
Eliminated on disposals	(1,040)	-	-	(1,040)
Impairment	-	2,767	-	2,767
At 31 March 2011	**5,130**	**2,767**	**840**	**8,737**
Carrying amount				
At 31 March 2010	2,097	7,653	280	10,030
At 31 March 2011	**2,002**	**4,886**	**-**	**6,888**

The carrying amount of goodwill is allocated by business segment as follows:

Company	Consumer Finance £'000	Business Finance £'000	Invoice Finance £'000	Total £'000
At 31 March 2010	400	2,367	4,886	7,653
At 31 March 2011	**-**	**-**	**4,886**	**4,886**

Impairment testing

The recoverable amount for each cash generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a three year period. The pre-tax discount rates applied to cash flow projections are shown below and cash flows beyond the three year period were extrapolated using a 2.9% growth rate (2010: 2.5%).

Impairment is determined when the IRR is below 12%.

The key assumptions used in the calculation of value in use were budget assumptions and growth rate used to extrapolate cash flows beyond the budget period and discount rate. 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. These budgets are approved by senior management and the parent company. The growth rate used to extrapolate cash flows beyond the budget period has been based on the long term growth rate of the economy. An internal rate of return method was used in the calculation of value in use, which resulted in returns in excess of the parent company's minimum expectations.

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

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For the year ended 31 March 2011

12. Loans and receivables

The amortised cost values of the group's loans and receivables are analysed by residual maturity as follows:

				2011			
Group amounts due in	**<1 year £'000**	**1-2 yrs £'000**	**2-3 yrs £'000**	**3-4 yrs £'000**	**4-5 yrs £'000**	**>5 yrs £'000**	**Total £'000**
Gross loans and receivables:							
Finance leases	8,961	9,840	4,899	2,312	1,878	600	**28,490**
Hire purchase agreements	72,225	43,266	12,974	41,121	5,140	1,775	**176,501**
Instalment finance agreements	440,340	269,571	151,016	81,391	52,665	102,869	**1,097,852**
Other loans and advances	89,060	-	-	-	-	-	**89,060**
Total	**610,586**	**322,677**	**168,889**	**124,824**	**59,683**	**105,244**	**1,391,903**
Deferred revenue:							
Finance leases	(881)	(986)	(489)	(226)	(182)	(52)	**(2,816)**
Hire purchase agreements	(6,335)	(3,797)	(1,138)	(3,609)	(451)	(156)	**(15,486)**
Instalment finance agreements	(87,415)	(50,065)	(33,746)	(23,411)	(16,959)	(17,924)	**(229,520)**
Other loans and advances	-	-	-	-	-	-	**-**
Total	**(94,631)**	**(54,848)**	**(35,373)**	**(27,246)**	**(17,592)**	**(18,132)**	**(247,822)**
Allowance for impairment losses:							
Finance leases	(238)	(205)	(105)	(48)	(37)	(11)	**(644)**
Hire purchase agreements	(1,984)	(1,189)	(356)	(1,130)	(141)	(49)	**(4,849)**
Instalment finance agreements	(3,246)	(1,345)	(557)	(165)	(42)	(38)	**(5,393)**
Other loans and advances	(511)	-	-	-	-	-	**(511)**
Total	**(5,979)**	**(2,739)**	**(1,018)**	**(1,343)**	**(220)**	**(98)**	**(11,397)**
Present value of loans and receivables:							
Finance leases	7,842	8,649	4,305	2,038	1,659	537	**25,030**
Hire purchase agreements	63,906	38,280	11,480	36,382	4,548	1,570	**156,166**
Instalment finance agreements	349,679	218,161	116,713	57,815	35,664	84,907	**862,939**
Other loans and advances	88,549	-	-	-	-	-	**88,549**
Total	**509,976**	**265,090**	**132,498**	**96,235**	**41,871**	**87,014**	**1,132,684**

				2010			
Group amounts due in	<1 year £'000	1-2 yrs £'000	2-3 yrs £'000	3-4 yrs £'000	4-5 yrs £'000	>5 yrs £'000	Total £'000
Gross loans and receivables:							
Finance leases	16,629	9,309	6,798	7,617	2,276	465	43,094
Hire purchase agreements	88,749	70,746	49,822	37,740	5,414	9,045	261,516
Instalment finance agreements	345,320	208,173	120,458	60,954	38,063	75,745	848,713
Other loans and advances	51,419	28	-	-	-	-	51,447
Total	502,117	288,256	177,078	106,311	45,753	85,255	1,204,770
Deferred revenue:							
Finance leases	(1,502)	(947)	(723)	(815)	(237)	(34)	(4,258)
Hire purchase agreements	(9,430)	(7,230)	(5,092)	(3,858)	(553)	(925)	(27,088)
Instalment finance agreements	(61,240)	(35,944)	(23,726)	(16,489)	(12,002)	(14,013)	(163,414)
Other loans and advances	-	-	-	-	-	-	-
Total	(72,172)	(44,121)	(29,541)	(21,162)	(12,792)	(14,972)	(194,760)
Allowance for impairment losses:							
Finance leases	(1,393)	(90)	(23)	(105)	-	(3)	(1,614)
Hire purchase agreements	(4,344)	(230)	(312)	(74)	(1)	(25)	(4,986)
Instalment finance agreements	(4,635)	(1,918)	(834)	(252)	(71)	(61)	(7,771)
Other loans and advances	(244)	-	-	-	-	-	(244)
Total	(10,616)	(2,238)	(1,169)	(431)	(72)	(89)	(14,615)
Present value of loans and receivables:							
Finance leases	13,734	8,272	6,052	6,697	2,039	428	37,222
Hire purchase agreements	74,975	63,286	44,418	33,808	4,860	8,095	229,442
Instalment finance agreements	279,445	170,311	95,898	44,213	25,990	61,671	677,528
Other loans and advances	51,175	28	-	-	-	-	51,203
Total	419,329	241,897	146,368	84,718	32,889	70,194	995,395

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For the year ended 31 March 2011

12. Loans and receivables (cont'd)

The unguaranteed residual value of assets leased under finance leases by the group at the reporting date is £238,000 (2010: £639,000).

The group (and the company) holds collateral with a fair value of £252,357,000 (2010: £320,599,000) in respect of its loans and receivables and is not permitted to sell or re-pledge the collateral in the absence of default by the holder of the asset.

In accordance with the securitisation arrangements, refer note 14, the group (and the company) has transferred £583,042,000 (2010: £519,173,000) of its instalment finance agreements to The Royal Bank of Scotland plc as at 31 March 2011. The group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as secured borrowing. At the reporting date the carrying amount of the transferred instalment finance agreements is £583,042,000 (2010: £518,372,000) and the liability is £399,822,000 (2010: £374,793,000).

The amortised cost values of the company's loans and receivables are analysed by residual maturity as follows:

				2011			
Company amounts due in	**<1 year**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**>5 yrs**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross loans and receivables:							
Finance leases	8,265	9,719	4,814	2,227	1,793	515	**27,333**
Hire purchase agreements	72,185	43,264	12,974	41,121	5,140	1,775	**176,459**
Instalment finance agreements	440,340	269,571	151,016	81,391	52,665	102,869	**1,097,852**
Other loans and advances	89,060	-	-	-	-	-	**89,060**
Amounts owed by subsidiaries	-	-	-	-	-	246,436	**246,436**
Total	**609,850**	**322,554**	**168,804**	**124,739**	**59,598**	**351,595**	**1,637,140**
Deferred revenue:							
Finance leases	(839)	(986)	(489)	(226)	(182)	(52)	**(2,774)**
Hire purchase agreements	(6,334)	(3,797)	(1,138)	(3,609)	(451)	(156)	**(15,485)**
Instalment finance agreements	(87,415)	(50,065)	(33,746)	(23,411)	(16,959)	(17,924)	**(229,520)**
Other loans and advances	-	-	-	-	-	-	**-**
Total	**(94,588)**	**(54,848)**	**(35,373)**	**(27,246)**	**(17,592)**	**(18,132)**	**(247,779)**
Allowance for impairment losses:							
Finance leases	(169)	(199)	(99)	(46)	(37)	(11)	**(561)**
Hire purchase agreements	(1,984)	(1,189)	(356)	(1,130)	(141)	(49)	**(4,849)**
Instalment finance agreements	(3,246)	(1,345)	(557)	(165)	(42)	(38)	**(5,393)**
Other loans and advances	(511)	-	-	-	-	-	**(511)**
Total	**(5,910)**	**(2,733)**	**(1,012)**	**(1,341)**	**(220)**	**(98)**	**(11,314)**
Present value of loans and receivables:							
Finance leases	7,257	8,534	4,226	1,955	1,574	452	**23,998**
Hire purchase agreements	63,867	38,278	11,480	36,382	4,548	1,570	**156,125**
Instalment finance agreements	349,679	218,161	116,713	57,815	35,664	84,907	**862,939**
Other loans and advances	88,549	-	-	-	-	-	**88,549**
Amounts owed by subsidiaries	-	-	-	-	-	246,436	**246,436**
Total	**509,352**	**264,973**	**132,419**	**96,152**	**41,786**	**333,365**	**1,378,047**

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For the year ended 31 March 2011

12. Loans and receivables (cont'd)

				2010			
Company amounts due in	<1 year £'000	1-2 yrs £'000	2-3 yrs £'000	3-4 yrs £'000	4-5 yrs £'000	>5 yrs £'000	Total £'000
Gross loans and receivables:							
Finance leases	12,791	8,659	6,679	7,532	2,191	295	38,147
Hire purchase agreements	88,606	70,717	49,819	37,740	5,414	9,045	261,341
Instalment finance agreements	345,319	208,174	120,458	60,954	38,063	75,745	848,713
Other loans and advances	51,419	28	-	-	-	-	51,447
Amounts owed by subsidiaries	-	-	-	-	-	204,154	204,154
Total	498,135	287,578	176,956	106,226	45,668	289,239	1,403,802
Deferred revenue:							
Finance leases	(1,428)	(937)	(723)	(815)	(237)	(34)	(4,174)
Hire purchase agreements	(9,389)	(7,228)	(5,092)	(3,858)	(553)	(925)	(27,045)
Instalment finance agreements	(61,240)	(35,944)	(23,726)	(16,489)	(12,002)	(14,013)	(163,414)
Other loans and advances	-	-	-	-	-	-	-
Total	(72,057)	(44,109)	(29,541)	(21,162)	(12,792)	(14,972)	(194,633)
Allowance for impairment losses:							
Finance leases	(1,161)	(67)	(23)	(105)	-	(3)	(1,359)
Hire purchase agreements	(4,302)	(229)	(312)	(74)	(1)	(25)	(4,943)
Instalment finance agreements	(4,635)	(1,918)	(834)	(252)	(71)	(61)	(7,771)
Other loans and advances	(244)	-	-	-	-	-	(244)
Total	(10,342)	(2,214)	(1,169)	(431)	(72)	(89)	(14,317)
Present value of loans and receivables:							
Finance leases	10,202	7,655	5,933	6,612	1,954	258	32,614
Hire purchase agreements	74,915	63,260	44,415	33,808	4,860	8,095	229,353
Instalment finance agreements	279,444	170,312	95,898	44,213	25,990	61,671	677,528
Other loans and advances	51,175	28	-	-	-	-	51,203
Amounts owed by subsidiaries	-	-	-	-	-	204,154	204,154
Total	415,736	241,255	146,246	84,633	32,804	274,178	1,194,852

The unguaranteed residual value of assets leased under finance leases by the company at the reporting date is £nil (2010: £nil).

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12. Loans and receivables (cont'd)

Movements in the allowance for impairment losses during the year were as follows:

	Group 2011 £'000	Group 2010 £'000	**Company 2011 £'000**	Company 2010 £'000
At 1 April				
Finance leases	**1,614**	1,600	**1,359**	1,123
Hire purchase agreements	**4,986**	2,453	**4,943**	2,398
Instalment finance agreements	**7,771**	7,233	**7,771**	7,233
Other loans and advances	**244**	4,774	**244**	4,354
Total at 1 April	**14,615**	16,060	**14,317**	15,108
Amounts (written off)/written back				
Finance leases	**(1,024)**	(2,091)	**(823)**	(1,725)
Hire purchase agreements	**(6,137)**	(8,593)	**(6,296)**	(8,803)
Instalment finance agreements	**(17,724)**	(14,188)	**(17,724)**	(14,188)
Other loans and advances	**34**	(6,729)	**34**	(6,080)
Total amounts written off	**(24,851)**	(31,601)	**(24,809)**	(30,796)
Recoveries				
Finance leases	**1,340**	364	**1,304**	359
Hire purchase agreements	**33**	59	**-**	-
Instalment finance agreements	**3,597**	1,567	**3,597**	1,567
Other loans and advances	**-**	-	**-**	-
Total recoveries	**4,970**	1,990	**4,901**	1,926
Charge to the income statement				
Finance leases	**(1,286)**	1,741	**(1,279)**	1,602
Hire purchase agreements	**5,967**	11,067	**6,202**	11,348
Instalment finance agreements	**11,749**	13,159	**11,749**	13,159
Other loans and advances	**233**	2,199	**233**	1,970
Total charge to the income statement	**16,663**	28,166	**16,905**	28,079
At 31 March				
Finance leases	**644**	1,614	**561**	1,359
Hire purchase agreements	**4,849**	4,986	**4,849**	4,943
Instalment finance agreements	**5,393**	7,771	**5,393**	7,771
Other loans and advances	**511**	244	**511**	244
Total at 31 March	**11,397**	14,615	**11,314**	14,317

In addition to the above charge, bad debt impairment in the consolidated income statement includes charges relating to trade debtors of £658,000 (2010: £1,160,000) and collection expenses of £nil (2010: £837,000). The total charge in the consolidated income statement is, therefore, £17,321,000 (2010: £30,163,000).

The interest rate in the majority of loans and receivables is fixed at the contract date for all of the lease term. These balances are therefore subject to fair value interest rate risk. Approximately £61,060,000 (2010: £45,370,000) of loans and receivables are written at floating interest rates, and are therefore subject to cash flow interest rate risk.

The weighted average effective interest rates of loans and receivables are:

	Group 2011 %	Group 2010 %	**Company 2011 %**	Company 2010 %
Finance leases	**7.4**	7.2	**7.5**	7.9
Hire purchase agreements	**6.5**	7.5	**6.5**	7.5
Instalment finance agreements	**9.8**	9.7	**9.8**	9.7
Other loans and advances	**4.9**	6.4	**4.9**	6.4
Amounts owed by subsidiaries	**-**	-	**2.6**	3.5
Total loans and receivables (weighted average)	**8.9**	8.9	**7.8**	8.0

Notes to the consolidated financial statements

For the year ended 31 March 2011

13. Derivative financial instruments

Derivative financial instruments have been disclosed in the group and company statement of financial position as follows:

	Assets 2011 £'000	Assets 2010 £'000	**Liabilities 2011 £'000**	Liabilities 2010 £'000
Cross currency swap contracts				
Designated as hedges less than 1 year	**73,886**	48,278	**314**	2,347
Interest rate swap contracts				
Designated as hedges less than 1 year	**-**	-	**1,035**	1,346
Non designated less than 1 year	**-**	-	**-**	899
Current	**73,886**	48,278	**1,349**	4,592
Cross currency swap contracts				
Designated as hedges 1 to 2 years	**40,929**	55,902	**1,276**	224
Designated as hedges 2 to 5 years	**5,321**	32,942	**1,207**	801
Interest rate swap contracts				
Designated as hedges 1 to 2 years	**290**	-	**378**	3,984
Designated as hedges 2 to 5 years	**192**	-	**43**	-
Non designated 1 to 2 years	**-**	-	**116**	-
Non designated 2 to 5 years	**-**	-	**13**	-
Non current	**46,732**	88,844	**3,033**	5,009

The group's activities expose it to the risk of changes in foreign currency exchange rates and interest rates. The group enters into a variety of derivative financial instruments to manage its exposure to these risks, including:

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

Fair value hedges

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

Cash flow hedges

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

The table below shows the fair values of designated derivative financial instruments, recorded as assets or liabilities.

	Assets 2011 £'000	Assets 2010 £'000	**Liabilities 2011 £'000**	Liabilities 2010 £'000
Derivatives designated as fair value hedges				
Currency swaps	**46,380**	30,043	**456**	266
Total fair value hedges	**46,380**	30,043	**456**	266
Derivatives designated as cash flow hedges				
Interest rate swaps	**482**	-	**1,456**	5,330
Currency swaps	**73,756**	107,079	**2,341**	3,106
Total cash flow hedges	**74,238**	107,079	**3,797**	8,436

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13. Derivative financial instruments (cont'd)

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. Further information on risk management is included in note 28.

The following table details the cross currency swaps outstanding at the reporting date:

	Average exchange rate		Foreign currency amount		Contract amount		Fair value	
Outstanding contracts to buy Yen and sell Sterling	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
			¥'000,000	¥'000,000	**£'000**	£'000	**£'000**	£'000
Assets								
Less than 1 year	**178.80**	182.50	**39,000**	36,600	**218,164**	212,048	**73,364**	46,662
1 to 2 years	**159.10**	176.15	**33,100**	37,000	**208,070**	203,691	**40,841**	53,278
2 to 5 years	**142.70**	187.86	**8,700**	15,500	**60,975**	78,712	**4,151**	30,198
Over 5 years	**-**	200.53	**-**	1,500	**-**	7,480	**-**	2,521
Liabilities								
Less than 1 year	**131.00**	-	**1,000**	-	**7,634**	-	**(135)**	-
1 to 2 years	**130.50**	-	**8,500**	2,000	**65,114**	14,473	**(1,246)**	(224)
2 to 5 years	**130.10**	-	**1,000**	1,300	**7,687**	9,588	**(108)**	(535)
Over 5 years	**-**	-	**-**	-	**-**	-	**-**	(266)
Total			**91,300**	93,900	**567,644**	525,992	**116,867**	131,636
					£'000	£'000	**£'000**	£'000
Outstanding contracts to buy other currencies and sell Sterling	**US$'000**		**222,000**	144,030	**138,055**	91,965	**(535)**	2,585
	€'000		**9,992**	130,603	**8,806**	116,633	**16**	(471)
	AUS$'000		**15,000**	-	**8,557**	-	**1,170**	-
Total					**155,418**	208,598	**651**	2,114
					£'000	£'000	**£'000**	£'000
Outstanding contracts to sell other currencies and buy Sterling	**HK$'000**		**(295,000)**	-	**(23,376)**	-	**(179)**	-
Grand Total					**699,686**	734,590	**117,339**	133,750

The fair value of cross currency swaps that are designated as cash flow hedges amount to £71,415,000 (2010: £103,974,000), the movement of which, excluding foreign exchange movements, has been deferred in equity. The hedged cash flows are expected to occur and affect profit and loss in the years up to 2015 (2010: 2013). The fair value of currency derivative financial instruments that are designated and effective as fair value hedges amount to £45,924,000 (2010: £29,776,000), the movement of which has been recognised in the income statement. This has been offset by a corresponding revaluation of the underlying hedged item. The fair value of the remaining cross currency swaps, which are not formally designated in any hedging relationships, is £nil (2010: £nil).

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13. Derivative financial instruments (cont'd)

Interest rate swap contracts

Under interest rate swap (IRS) contracts, the group agrees to pay or receive the difference between variable and fixed interest rates calculated on an agreed notional principal amount. Such contracts allow the group to mitigate the risk of changing interest rates on the cash flows of issued variable rate debt held and to a lesser extent the fair value of fixed rate debt held. The fair value of IRS's at the year end are shown below and 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.

The average interest rates shown below are based on the outstanding balances at the start of the financial year. Further information on risk management is included in note 28.

Notional principal amounts and remaining terms of IRS contracts outstanding at 31 March:

	Average contracted fixed interest rate		**Notional principal amount**		**Fair value**	
Outstanding variable to fixed contracts	**2011 %**	2010 %	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000
Assets						
1 to 2 years	**0.98**	-	**68,217**	-	**290**	-
2 to 5 years	**1.78**	-	**48,291**	-	**192**	-
Total			**116,508**	-	**482**	-
Liabilities						
Less than 1 year	**3.43**	4.31	**86,170**	165,164	**(1,035)**	(2,245)
1 to 2 years	**1.67**	3.97	**109,908**	72,410	**(494)**	(2,132)
2 to 5 years	**1.92**	2.86	**14,903**	67,022	**(56)**	(1,852)
Total			**210,981**	304,596	**(1,585)**	(6,229)

The 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.

Where possible, floating to fixed IRS's are designated for accounting purposes as cash flow hedges in order to reduce the variability of charges to the group's income statement. In other cases, although the IRS's economically hedge the group's cash flow exposure they cannot be designated as cash flow hedges under IAS 39.

The fair value of IRS's that are designated as cash flow hedges amount to £(974,000) (2010: £(5,330,000)), the movement of which has been deferred in equity. The hedged cash flows are expected to occur and affect profit and loss in the years up to 2014 (2010: 2012). The remaining fair value of IRS's that are not formally designated in any hedging relationships was £(129,000) (2010: £(899,000)), the movement of which is included in the income statement.

The IRS's and the interest payments on loans may not occur simultaneously as the swaps settle quarterly but the loan interest payments are often bi-annual.

As at 31 March 2011 and 31 March 2010, the group held no fixed to floating IRS's.

Fair value (loss)/gain on derivative financial instruments

	2011 £'000	2010 £'000
Ineffective portion of cash flow hedges	**(2,135)**	1,000
Loss on fair value hedging instruments	**(14,803)**	(48,386)
Gain on the hedged item attributable to the hedged risk	**16,148**	47,904
Gain on derivatives not in designated hedging relationships	**770**	3,285
Total (loss)/gain recognised in the income statement	**(20)**	3,803
Item included within finance costs:		
Recycled from cash flow hedge reserve	**(1,179)**	(287)

Notes to the consolidated financial statements

For the year ended 31 March 2011

14. Interest bearing borrowings

	2011 £'000	2010 £'000
Bank borrowings	**478,061**	276,291
Commercial paper	**8,775**	121,608
Funding from securitised receivables	**399,822**	374,793
Medium term notes	**531,181**	512,178
Total	**1,417,839**	1,284,870

The group has a central treasury function responsible for all external funding activities. Accordingly, the group and company disclosures for interest bearing borrowings are the same.

The borrowings are repayable as follows:

	Fixed 2011 £'000	**Floating 2011 £'000**	**Total 2011 £'000**	Fixed 2010 £'000	Floating 2010 £'000	Total 2010 £'000
Current liabilities						
On demand or within 1 year	**179,989**	**777,507**	**957,496**	597,364	233,767	831,131
Non current liabilities						
More than 1 year but less than 2	**125,089**	**190,838**	**315,927**	230,043	87,504	317,547
More than 2 years but less than 5	**60,093**	**84,323**	**144,416**	38,700	97,492	136,192
Total	**185,182**	**275,161**	**460,343**	268,743	184,996	453,739
Total	**365,171**	**1,052,668**	**1,417,839**	866,107	418,763	1,284,870

There were no defaults of either principal or interest and no unremedied breaches of loan agreement terms that would permit the lender to demand accelerated payment on any loans payable during the 2011 or 2010 reporting periods.

An analysis of borrowings by currency is as follows:

	Sterling £'000	**Euro £'000**	**Yen £'000**	**US Dollar £'000**	**Aus Dollar £'000**	**Total £'000**
31 March 2011						
Bank borrowings – external providers	**173,725**	**2,067**	**228,784**	**73,485**	**-**	**478,061**
Commercial paper	**-**	**8,775**	**-**	**-**	**-**	**8,775**
Funding from securitised receivables	**399,822**	**-**	**-**	**-**	**-**	**399,822**
Medium term notes	**-**	**-**	**478,626**	**42,918**	**9,637**	**531,181**
Total	**573,547**	**10,842**	**707,410**	**116,403**	**9,637**	**1,417,839**
31 March 2010						
Bank borrowings – external providers	22,000	1,926	194,136	58,229	-	276,291
Commercial paper	4,979	116,629	-	-	-	121,608
Funding from securitised receivables	374,793	-	-	-	-	374,793
Medium term notes	-	-	473,239	38,939	-	512,178
Total	401,772	118,555	667,375	97,168	-	1,284,870

Borrowings of £365,171,000 (2010: £866,107,000) were arranged at fixed interest rates and expose the group to fair value interest rate risk. All other borrowings were arranged at floating rates, with cash flow interest rate risk.

The weighted average effective interest rates paid were as follows:

	2011 %	2010 %
Bank borrowings	**2.52**	3.83
Commercial paper	**0.86**	1.75
Funding from securitised receivables	**1.06**	1.22
Medium term notes	**1.93**	2.79
Total	**2.02**	2.44

Notes to the consolidated financial statements

For the year ended 31 March 2011

14. Interest bearing borrowings (cont'd)

Bank overdrafts are repayable on demand and are secured by the right of set-off against other cash balances held by certain group companies with the same bank (refer note 17). The average effective rate on overdraft balances for the year was 1.5% (2010: 1.5%) and is based on UK base rates plus an agreed margin. Other uncommitted borrowing facilities are available to the group from banks and other sources. Certain facilities are secured by the right of set-off against cash balances held by certain group companies at the same bank (refer note 17).

The group raises funding under its Euro note 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 and three months. 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 (see note 28).

15. Inventories

	Group 2011 £'000	Group 2010 £'000	**Company 2011 £'000**	Company 2010 £'000
Returned ex-leased assets held for resale	**9,997**	9,291	**287**	3,596
Stock of parts for vehicle refits	**1,855**	-	**-**	-
Total	**11,852**	9,291	**287**	3,596

16. Trade receivables and other assets

	Note	**Group 2011 £'000**	Group 2010 £'000	**Company 2011 £'000**	Company 2010 £'000
Trade debtors		**15,619**	11,048	**1,074**	1,196
Prepayments		**3,411**	6,535	**2,844**	4,709
Other debtors		**3,774**	3,196	**1,399**	750
Reinsurers' share of provision for unearned premiums	24	**496**	1,079	**-**	-
Reinsurers' share of provision for insurance claim liabilities	24	**82**	145	**-**	-
Deferred insurance commissions		**3,516**	11,126	**-**	-
Total		**26,898**	33,129	**5,317**	6,655

Trade debtors principally comprise insurance premiums receivable and operating lease rentals receivable; they are non interest bearing and generally on 30 day terms.

As at 31 March 2011, the trade debtors impairment provision was as follows:

	Group £'000	**Company £'000**
At 31 March 2009	195	0
Net increase for the year	929	328
At 31 March 2010	1,124	328
Net increase/(decrease) for the year	86	(328)
At 31 March 2011	**1,210**	**-**

The movement in deferred insurance commissions is analysed below:

	2011 £'000	2010 £'000
At 1 April	**11,126**	22,044
Charge to the income statement for the year:		
Acquisition cost deferred during the year	**(25)**	1,856
Amortisation charged during the year	**(7,585)**	(12,774)
Total charge to the income statement for the year	**(7,610)**	(10,918)
At 31 March	**3,516**	11,126

Notes to the consolidated financial statements

For the year ended 31 March 2011

17. Cash and cash equivalents and overdrafts

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

In accordance with the security arrangements of liabilities as disclosed in note 14 to the financial statements, a bank overdraft of £3,558,000 (2010: £5,372,000) is secured by cash as part of an interest offset arrangement between some accounts held by the group with HSBC. Under this arrangement, in a situation of default by the group, HSBC may apply credit bank balances to satisfy bank balances in deficit held by the group with HSBC.

18. Share capital

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

	2011 £'000	2010 £'000
Authorised:		
80,000,000 ordinary shares at 25p each (2010: 80,000,000)	**20,000**	20,000
Issued and fully paid		
42,674,511 ordinary shares at 25p each (2010: 42,674,511)	**10,669**	10,669

19. Dividends paid and proposed

	2011 £'000	2010 £'000
Declared and paid during the year:		
Final dividend for the year ended 31 March 2010 of 6p per share (2009: 0p)	**2,560**	-
Interim dividend for the year ended 31 March 2011 of 5p per share (2010: 4p)	**2,134**	1,707
	4,694	1,707
Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 March):		
Final dividend for the year ended 31 March 2011 of 4.8p per share (2010: 6p)	**2,065**	2,560

20. Provisions

	CCA s75 claims £'000	**Dilapid-ations £'000**	**Company £'000**	**Unearned insurance premiums £'000**	**Insurance claim liabilities £'000**	**Group £'000**
At 31 March 2010:						
Current	478	-	478	10,516	1,526	12,520
Non current	322	-	322	4,803	393	5,518
Total	800	-	800	15,319	1,919	18,038
Arising during the year	6,860	300	7,160	(222)	3,905	10,843
Utilised	(785)	-	(785)	(10,093)	(2,832)	(13,710)
Unused amounts reversed	(15)	-	(15)	-	-	(15)
At 31 March 2011	**6,860**	**300**	**7,160**	**5,004**	**2,992**	**15,156**
Analysed as:						
Current	6,860	-	6,860	4,144	2,479	13,483
Non current	-	300	300	860	513	1,673

The CCA s75 claims provision relates to incidences where the group is jointly and severally liable to customers who have claims against retailers for misrepresentation or breach of contract. In the year to 31 March 2011 a provision of £6.8m was created as a result of difficulties experienced by retailers in the training sector, i.e. their ability to provide the training to customers.

The unearned insurance premiums reserve is calculated using a number of risk profiles that vary dependent on the term of the cover, the associated risks and perils of the cover offered. Provisions are independently verified annually by a qualified actuary. The majority of premium reserves will be recognised within four years of the date of the accounts.

Claim liabilities provisions refer to claims accepted not yet paid at the year end and a provision for claims incurred but not reported (IBNR). The IBNR provision is calculated based on claims expenses and expectations and is independently verified by a qualified actuary.

Notes to the consolidated financial statements

For the year ended 31 March 2011

21. 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 to the income statement of £666,000 (2010: £627,000) represents contributions payable to the scheme at rates specified in the rules of the plan. There were no unpaid contributions at either 31 March 2011 or 31 March 2010.

Defined benefit pension scheme

The group operates a funded pension scheme providing benefits based on final pensionable earnings. The scheme is set up under trust and the assets are therefore held separately from the group and invested by a specialist manager. Under the scheme the employees are entitled to retirement benefits of up to 66% of final pensionable earnings based on their number of years service, on reaching a normal retirement age of 65. No other post retirement benefits are provided.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation was carried out at 31 March 2011 by Lane Clark & Peacock, LLP, an independent qualified actuary. 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.

Key assumptions used in the valuation of the scheme assets and net liabilities are as follows:

	2011	2010
Retail price inflation	**3.5%**	3.7%
Discount rate (per annum)	**5.6%**	5.6%
Expected return on scheme assets	**6.4%**	6.6%
General salary increases	**3.5%**	3.7%
Pension increases in payment	**3.4%**	3.6%
Life expectancy of:		
Male aged 65 now	**22.1 years**	22.4 years
Male age 65 in 20 years	**23.6 years**	23.6 years
Female aged 65 now	**24.4 years**	24.7 years
Female age 65 in 20 years	**26.0 years**	25.8 years

In July 2010 the government announced that it would, in future, link statutory minimum pension indexation to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This change means:

- Deferred pensions in excess of Guaranteed Minimum Pensions (GMP) will, in future, revalue in line with the CPI (limited to 5% pa), rather than in line with RP (limited to 5% pa or 2.5% pa); and
- ‘Post-88 GMP’s’ in payment will, in future increase annually in line with the CPI (limited to 3% pa), rather than in line with RPI (limited to 3%).

The accounting entries have been calculated on the basis that the change to the benefits of the scheme is as advised by the scheme’s lawyers.

The expected return on assets assumptions are based on the asset allocation approved by the trustees and calculated net of investment management expenses. The expected return assumptions for each class are both subjective and critical to the overall expected return assumption. For government gilts the expected returns are the long term yields at the accounting date. For corporate bonds the expected return has been based on long term yields at the accounting date adjusted for the risk of default and downgrade in the future. Equity return assumptions are based on 3.50% above the expected long term return on long dated gilts (2010: 3.75%).

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

	2011	2010
	£’000	£’000
Current service cost	**590**	566
Interest cost	**1,464**	1,271
Expected return on scheme assets	**(1,653)**	(1,233)
Charge for the year	**401**	604

In addition, an actuarial gain of £3,279,000 (2010: loss of £2,124,000) has been recognised in the consolidated statement of comprehensive income. The actual return on scheme assets was £1,931,000 (2010: £5,878,000).

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For the year ended 31 March 2011

21. Retirement benefit pension schemes (cont'd)

Defined benefit pension scheme (cont'd)

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

	2011	2010
	£'000	£'000
Present value of defined benefit obligations	**(24,669)**	(26,082)
Fair value of scheme assets	**27,289**	24,751
Asset/(liability) recognised in the statement of financial position	**2,620**	(1,331)

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

	Fair value of scheme assets		**Net present value of obligations**	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
At 1 April	**24,751**	18,034	**(26,082)**	(17,768)
Current service cost	**-**	-	**(590)**	(566)
Expected return/interest cost	**1,653**	1,233	**(1,464)**	(1,271)
Contributions from scheme members	**160**	174	**(160)**	(174)
Contributions from the employer	**1,073**	1,131	**-**	-
Actuarial gains/(losses)	**278**	4,645	**3,001**	(6,769)
Benefits paid	**(626)**	(466)	**626**	466
At 31 March	**27,289**	24,751	**(24,669)**	(26,082)

The analysis of the scheme assets and the expected rate of return at the reporting date are as follows:

	Expected return		**Fair value of assets**	
	2011	2010	**2011**	2010
	%	%	**£'000**	£'000
Equity instruments	**7.6**	7.8	**16,789**	15,229
Bonds	**5.3**	5.4	**7,758**	6,888
Property	**6.1**	6.3	**2,692**	2,492
Cash	**-**	-	**50**	142
Average/Total	**6.4**	6.6	**27,289**	24,751

The five year history of experience adjustments is as follows:

	2011	2010	2009	2008	2007
Present value of defined benefit obligations (£'000)	**(24,669)**	(26,082)	(17,768)	(22,634)	(24,026)
Fair value of scheme assets (£'000)	**27,289**	24,751	18,034	21,411	21,041
Defined benefit pension scheme (deficit)/surplus (£'000)	**2,620**	(1,331)	266	(1,223)	(2,985)
Experience adjustments on scheme liabilities:					
Amount (£'000)	**544**	10	(107)	754	1,409
Percentage of scheme liabilities (%)	**2**	-	(1)	3	6
Experience adjustments on scheme assets:					
Amount (£'000)	**278**	4,645	(5,426)	(2,218)	(459)
Percentage of scheme assets (%)	**1**	19	(30)	(10)	(2)

The estimated amount of contributions expected to be paid to the scheme during the year ending 31 March 2012 is £1,195,000 (2011: £1,237,000).

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For the year ended 31 March 2011

22. Trade and other payables and other liabilities

	Group 2011 £'000	Group 2010 £'000	**Company 2011 £'000**	Company 2010 £'000
Current (trade and other payables)				
Trade creditors and accruals	**64,926**	41,048	**43,225**	30,642
Other creditors	**10,911**	8,546	**4,335**	5,886
Rentals in advance and deferred maintenance	**17,793**	16,518	**-**	7
Total	**93,630**	66,112	**47,560**	36,535
Non current (other liabilities)				
Rentals in advance and deferred maintenance	**11,788**	10,934	**-**	-
Total	**11,788**	10,934	**-**	-

Trade creditors and accruals include credit balances due to invoice financing clients as well as amounts outstanding for trade purchases and ongoing costs.

23. Operating lease arrangements

Lessee activities

The following disclosures relate to the activities of the group and the company where they act as lessee:

	Group 2011 £'000	Group 2010 £'000	**Company 2011 £'000**	Company 2010 £'000
Minimum lease payments under operating leases recognised in the income statement during the year:				
Plant and equipment	**44**	69	**37**	39
Land and buildings	**705**	883	**502**	555
Total	**749**	952	**539**	594

At the reporting date the group had outstanding commitments for future minimum lease payments under non cancellable operating leases, which fall due as follows:

	Group 2011 £'000	Group 2010 £'000	**Company 2011 £'000**	Company 2010 £'000
Within 1 year	**862**	1,016	**531**	592
More than 1 year but less than 5	**3,418**	2,970	**2,132**	2,262
Over 5 years	**2,904**	2,180	**1,672**	2,170
Total	**7,184**	6,166	**4,335**	5,024

Operating lease payments represent rentals payable by the group for certain of its office properties and related office equipment. Leases are negotiated for an average 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 equipment forms a significant part of the group's business, as disclosed in note 5, and during the year amounted to £128,673,000 (2010: £114,130,000).

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

	Group 2011 £'000	Group 2010 £'000	**Company 2011 £'000**	Company 2010 £'000
Within 1 year	**108,512**	83,282	**2,862**	3,838
More than 1 year but less than 5	**122,466**	90,923	**7,356**	4,771
Over 5 years	**2,025**	1,855	**574**	482
Total	**233,003**	176,060	**10,792**	9,091

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24. Insurance

The group's insurance activities are undertaken by its subsidiary Hitachi Capital Insurance Europe (HCIE).

The risk attached to the insurance policies written by HCIE is the possibility that an insured event occurs and the uncertainty of the amount of the resulting claim.

The focus is on high volume and relatively standardised general insurance products, being payment protection and guaranteed asset protection insurance whereby the insured risk is the inability of customers to make payments under a loan contract. The most significant factors resulting in claims under these policies tends to be the health of the policyholder and the possibility of unemployment which depends upon, among other things, long term and short term economic factors.

HCIE is exposed to a number of insurance risks, being the risk of fluctuations in the timing, frequency and severity of insured events, relative to the expectations of HCIE at the time of underwriting. HCIE manages underwriting and pricing risk through underwriting guidelines, pricing policies by product line, and centralised control of policy wordings and subsequent changes. The insurance risk inherent to HCIE relates to losses arising on insurance business accepted.

Management is constantly reviewing risks associated with new business, and mitigation of these risks where considered too high through aspects such as reinsurance.

Reserving risk, being the risk that reserves are assessed incorrectly such that insufficient funds have been retained to pay claims as they fall due, is managed through the use of claims development data and historical patterns of reserving for risk. HCIE has also engaged an independent actuarial firm to carry out a review of all the technical provisions at the year end to ensure that adequate provisions are made for insurance risk.

Claims management risk, being the risk that claims are paid inappropriately, is managed through the use of external claims handling agencies. Reinsurance helps to protect against the effect of major catastrophic events or adverse trends in claims.

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

HCIE is not subject to material levels of concentration risk. HCIE mainly underwrote UK based risk. The policies were sold by agents operating nationally, volumes dealt with by each agent were not significant enough to give a material concentration risk.

Concentration risk does exist in reference to risk type. The live policy count is dominated by guaranteed asset protection (GAP) policies, i.e. cover for the shortfall between the current market value of a vehicle and the amount required to settle the finance agreement in the event of being declared a write off due to theft or accident; approximately three quarters of all policies are GAP risks and within this category 56% are return to invoice policies, i.e. cover which pays out the difference between current value and the original sales invoice.

Premium income and unearned insurance premium
Net insurance premium revenue recognised during the year has been determined as follows:

	2011	2010
	£'000	£'000
Gross written premiums	**222**	5,756
Reinsurance premiums (premiums accepted, then ceded to a third party insurer)	**(204)**	(2,395)
Net written premiums	**18**	3,361
Change in the gross provision for unearned insurance premiums	**10,519**	15,458
Change in the reinsurers' share of the provision for unearned insurance premiums	**(787)**	(1,678)
Change in the provision for unearned insurance premiums	**9,732**	13,780
Net insurance premiums earned	**9,750**	17,141

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For the year ended 31 March 2011

24. Insurance (cont'd)

Premium income and unearned insurance premium (cont'd)

Movements in the provision for unearned insurance premiums during the year were as follows:

	Gross 2011 £'000	**Reinsurance 2011 £'000**	**Net 2011 £'000**	Gross 2010 £'000	Reinsurance 2010 £'000	Net 2010 £'000
At 1 April	**15,319**	**(1,079)**	**14,240**	28,382	(362)	28,020
Premiums written	**222**	**(204)**	**18**	5,756	(2,395)	3,361
Premiums earned	**(10,537)**	**787**	**(9,750)**	(18,819)	1,678	(17,141)
At 31 March	**5,004**	**(496)**	**4,508**	15,319	(1,079)	14,240

The 2010 figures above have been restated due to an error in the disclosure included in last year's notes to the consolidated financial statements. This error had no impact on the financial statements or any other disclosure notes.

Claims expense and provision for insurance claims liabilities

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

	2011 £'000	2010 £'000
Claims incurred and loss adjustment expenses	**3,905**	8,016
Reinsurance recoveries in respect of claims incurred	**(176)**	(401)
Net insurance claims incurred	**3,729**	7,615

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

	Gross 2011 £'000	**Reinsurance 2011 £'000**	**Net 2011 £'000**	Gross 2010 £'000	Reinsurance 2010 £'000	Net 2010 £'000
At 1 April	**1,919**	**(143)**	**1,776**	278	(163)	115
Losses and expenses incurred:						
Losses and expenses	**2,631**	**(176)**	**2,455**	8,016	(401)	7,615
Increase to 90% confidence factor	**877**	**-**	**877**	-	-	-
Increase in run off claim expenses	**397**	**-**	**397**	-	-	-
Total	**3,905**	**(176)**	**3,729**	8,016	(401)	7,615
Increase in run off administrative expenses	**703**	**-**	**703**	-	-	-
Total payments in the year	**(2,832)**	**238**	**(2,594)**	(6,375)	421	(5,954)
At 31 March	**3,695**	**(81)**	**3,614**	1,919	(143)	1,776

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

The reserving policy for future claim liabilities was changed during the year to make provision for future claim liabilities at the 90th percentile. This created an increase of £2m in the requirement of total technical reserves, including associated policy and claims administration expenses. This change is in line with common business practice for an insurance company in run off. The estimation of the IBNR reserve is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to HCIE, where information about the claim event is available. IBNR claims may not become apparent to the insurer until several months after the events, which gave rise to the claims, have occurred. Actual claims in recent years have been materially the same as that estimated. HCIE has adopted a policy of setting the level of provisions required by using claims triangulations and a qualified actuary.

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For the year ended 31 March 2011

25. Related party disclosures

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

- Administration fee of £nil (2010: £74,000) received in respect of the provision of treasury related services to Hitachi Capital America Corporation.
- Vehicle operating lease income received from various Hitachi companies of £429,000 (2010: £539,000). Amounts due from related parties in respect of operating leases at the year end were £16,000 (2010: £16,000).
- Charges of £233,000 (2010: £157,000) were paid to Hitachi Capital Corporation (parent company). Amounts payable to Hitachi Capital Corporation at the year end were £481,000 (2010: £112,000).
- Charges of £13,000 (2010: £17,000) were paid to other Hitachi group companies.
- Dividends paid to Hitachi Capital Corporation of £4,694,000 (2010: £1,107,000).

Remuneration of key management personnel

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

	2011	2010
	£'000	£'000
Short term employee benefits	**1,577**	1,360
Amounts receivable under long term incentive plans	**500**	-
Post employment benefits	**101**	95
Total	**2,178**	1,455
Aggregate amount of remuneration paid to the directors	**1,586**	1,397
Highest paid director's remuneration in the year	**512**	403

There are three directors for whom retirement benefits are accruing under the group's defined benefit scheme. The post employment benefits above relate to the aggregate value of company contributions paid to the pension scheme on behalf of the directors, none of which was for the highest paid director. There are no transactions with directors to be reported.

26. Contingent liabilities

During the ordinary course of business the group is subject to potential or actual legal proceedings. All material cases are regularly assessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the group incurring a liability.

Under section 75 of the Consumer Credit Act 1974, the group is jointly and severally liable to customers who have claims against retailers for misrepresentation or breach of contract, in respect of certain types of agreements regulated by that Act. This risk is minimised by the group through regular due diligence reviews of the retailers through which consumer finance products are sold and termination of business where there is higher potential risk of default recognised. Deposits received which are subject to the section 75 protection are estimated not to exceed £18.7m (2010: £21.6m).

There were no other contingent liabilities as at 31 March 2011 (2010: none).

27. Event after the reporting period

On 1 April 2011 the Business Finance broker portfolio with a net book value of £28.4m was sold to Siemens for a consideration of £28.8m.

Notes to the consolidated financial statements

For the year ended 31 March 2011

28. Financial instruments, financial risk management objectives and risk management policies

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 notes 13 and 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 18 and the statement of changes in equity on page 13. The board of directors reviews the capital structure on a semi annual basis. As a part of this review the board considers the cost of capital and risks associated with each class of capital. The group will balance its overall capital structure through the payment of dividends to or capital injection from the parent company.

Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

Financial risk management objectives

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 Managing 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, commercial paper, uncommitted bank facilities and a certain amount of borrowings from the Hitachi Limited group of companies. 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, predominantly to either floating interest rate linked to LIBOR or fixed rate.

All floating rate borrowings (either Sterling based or swapped into floating rate Sterling from foreign currency) 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.

The group utilises cross currency swaps to eliminate foreign currency rate risk. Sterling forward rate agreements and Sterling interest rate caps are used to manage the group's exposure to changes in Sterling interest rates. Issuances of debt under the European medium term note programme and commercial paper are guaranteed by the UK group's parent company Hitachi Capital Corporation of Japan for which the UK group pays a fee. In addition, the group has various assets that arise directly from its operations, which under IFRS definitions are classified as financial instruments, being primarily hire purchase, instalment finance and finance lease agreements, as well as trade debtors and creditors.

Liquidity risk 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 and flexibility 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 access to the undrawn portion of its securitisation programme as well as uncommitted and overdraft facilities to provide short term financing.

Notes to the consolidated financial statements
For the year ended 31 March 2011

28. Financial instruments, financial risk management objectives and risk management policies (cont'd)

Liquidity risk management (cont'd)
The table below summarises the gross contractual maturity profile of the group's financial liabilities as at 31 March 2011. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations.

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	Total
Non derivative financial liabilities:						
Foreign currency denominated borrowings:						
US$'000	(56,480)	(68,585)	(100,348)	-	-	(225,413)
€'000	(12,329)	-	-	-	-	(12,329)
¥'000,000	(43,376)	(41,756)	(8,229)	(1,005)	(502)	(94,868)
AUS$'000	(435)	(435)	(15,435)	-	-	(16,305)
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Foreign currency denominated borrowings (GBP equivalent)	(371,365)	(355,944)	(134,103)	(7,529)	(3,759)	(872,700)
Sterling borrowings	(174,300)	-	-	-	-	(174,300)
Securitisation	(245,734)	(107,086)	(36,927)	(7,604)	(2,649)	(400,000)
	(791,399)	**(463,030)**	**(171,030)**	**(15,133)**	**(6,408)**	**(1,447,000)**
Derivative financial liabilities:						
US$'000	-	-	-	-	-	-
€'000	-	-	-	-	-	-
¥'000,000	-	-	-	-	-	-
HK$'000	(295,000)	-	-	-	-	(295,000)
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Sterling equivalent of foreign currency receipts relating to cross currency swaps	365,343	354,134	133,386	7,495	3,747	864,105
Sterling payments relating to interest rate swaps	(5,229)	(2,260)	(510)	-	-	(7,999)
Sterling receipts relating to interest rate swaps	3,333	2,982	818	-	-	7,133
Sterling payments relating to cross currency swaps	(244,284)	(315,352)	(128,651)	(7,558)	(3,841)	(699,686)
	119,163	**39,504**	**5,043**	**(63)**	**(94)**	**163,553**

Notes to the consolidated financial statements
For the year ended 31 March 2011

28. Financial instruments, financial risk management objectives and risk management policies (cont'd)

Liquidity risk management (cont'd)
The table below summarises the gross contractual maturity profile of the group's financial liabilities as at 31 March 2010. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations.

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	Total
Non derivative financial liabilities:						
Foreign currency denominated borrowings:						
US$'000	(89,996)	(54,805)	(5,013)	-	-	(149,814)
€'000	(133,161)	-	-	-	-	(133,161)
¥'000,000	(40,593)	(35,119)	(18,383)	(1,005)	(503)	(95,603)
	£'000	£'000	£'000	£'000	£'000	£'000
Foreign currency denominated borrowings (GBP equivalent)	(466,239)	(285,445)	(133,789)	(7,131)	(3,571)	(896,175)
Sterling borrowings	(27,533)	-	-	-	-	(27,533)
Securitisation	(224,413)	(95,965)	(40,544)	(11,141)	(2,730)	(374,793)
	(718,185)	(381,410)	(174,333)	(18,272)	(6,301)	(1,298,501)
Derivative financial liabilities:						
US$'000	86,805	54,805	5,013	-	-	146,622
€'000	131,000	-	-	-	-	131,000
¥'000,000	40,593	35,119	18,383	1,005	503	95,603
	£'000	£'000	£'000	£'000	£'000	£'000
Sterling equivalent of foreign currency receipts relating to cross currency swaps	462,205	285,445	133,789	7,131	3,571	892,141
Sterling payments relating to interest rate swaps	(8,648)	(2,157)	(132)	-	-	(10,937)
Sterling receipts relating to interest rate swaps	2,358	1,834	246	-	-	4,438
Sterling payments relating to cross currency swaps	(415,499)	(236,930)	(103,925)	(5,339)	(3,907)	(765,600)
	40,416	48,192	29,978	1,792	(336)	120,042

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

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

	Amount drawn 2011 £'000	**Capacity 2011 %**	Amount drawn 2010 £'000	Capacity 2010 %
US$1,400m multi currency Euro note programme	**531,181**	**61**	512,178	56
US$400m European commercial paper programme	**-**	**-**	44,229	17
€250m Belgian domestic commercial paper programme	**8,775**	**4**	77,379	35

All the above programmes are supported by a guarantee from Hitachi Capital Corporation and consequently, are rated 'A-' by Standard & Poor's.

In addition, the group has a committed £400m securitisation programme (2010: £375m). At 31 March 2011, drawings under this programme were £400m (2010: £375m).

Notes to the consolidated financial statements

For the year ended 31 March 2011

28. Financial instruments, financial risk management objectives and risk management policies (cont'd)

Funding sources (cont'd)

The group also has uncommitted facilities from a number of relationship banks, totalling £119m (2010: £94m). This includes unsecured bank borrowings and overdraft facilities, all of which are priced at a floating rate of interest. Drawings under these facilities are generally for periods of one day to three months and are charged at a margin over LIBOR or base rate at the time of drawing. At 31 March 2011 and 31 March 2010 there were no material borrowings from this source. An uncommitted facility for £120m (2010: £60m) is provided by Hitachi Europe Limited. At 31 March 2011, drawings under this facility were £119m (2010: £12m).

Foreign currency risk management

The group's currency risk mainly arises from foreign currency borrowings. The carrying amount of the group's foreign currency denominated monetary assets and 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 completely hedged at the time of drawdown unless currency proceeds are required to fund currency denominated assets. Currency risk will therefore only arise in the unlikely event of a cross currency swap counterparty defaulting on its non Sterling obligation. As at 31 March 2011 and 31 March 2010, all currency exposures on non Sterling debt were 100% hedged.

Foreign currency sensitivity

The group is mainly exposed to Japanese Yen.

The following details the group's sensitivity to a 10% decrease in Sterling against Japanese Yen, Euro and US Dollar exchange rates. The 10% change is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis of the group's exposure to foreign currency risk at the reporting date has been determined based on a further change in exchange rate occurring at the end of the current financial year. A positive number indicates an increase in profit or loss and other equity where pounds Sterling strengthens against the respective currency.

For every 10% depreciation of GBP against foreign currencies, profit would decrease £63,937 (2010: £63,721) as a result of debt revaluation. However, this would be offset by an equal and opposite revaluation of derivative instruments which are designated to hedge the currency revaluation risk as part of group policy, thus the net effect on the group result would be nil (2010: nil).

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

Interest rate risk management

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 originated. This risk is managed by the use of interest rate derivative financial instruments, specifically interest rate swaps, forward rate agreements and interest rate caps. Interest rate exposure is managed by duration, matching the fixed rate receivables and operating lease portfolio against the combination of fixed rate debt and the interest rate derivatives portfolio.

The group's policy is to hedge its exposure to floating rate interest movements to a target hedge ratio as agreed by the board from time to time. Generally the target is set within a range of between 60% and 90%. Hedging levels are reviewed at least monthly to monitor compliance with group policy.

The group enters into Sterling interest rate swaps purely for hedging purposes, seeking to match the amount, interest basis and rollover dates of the underlying borrowing as closely as possible. In seeking to closely match the duration of the group's assets and liabilities, the interest rate swap assigned to a debt instrument may not always run to the final maturity of the debt. This approach, although economically effective, can lead to derivative financial instruments that do not qualify for hedge accounting under IFRS accounting standards.

Notes to the consolidated financial statements

For the year ended 31 March 2011

28. Financial instruments, financial risk management objectives and risk management policies (cont'd)

Interest rate risk management (cont'd)

Any gains or losses arising from changes in the fair value of these non qualifying derivative financial instruments are taken directly to the income statement in accordance with the group's accounting policies set out in note 2. Consequently, increased volatility in the income statement will occur.

The company and the group's exposures to interest rates on financial assets and liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity

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

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

- Net profit would be debited by £4,110,000 (2010: £3,205,000). This is mainly attributable to the group's exposure to interest rates on variable rate borrowings.
- Other equity reserves would be credited/debited by £3,006,000 (2010: £7,625,000) mainly as a result of the change in mark to market valuation of interest rate swaps in designated hedging relationships.

Credit risk

The group's principal financial assets are cash and bank balances, loans and receivables, and trade and other receivables (including reinsurers' share of insurance claim liabilities).

The group's credit risk is primarily attributable to its loans and receivables. The amounts presented in the statement of financial position are net of allowances for impairment losses. The gross amounts of loans and receivables represent the group's maximum exposure to credit risk and are set out in note 12. Collateral held on loans and receivables is also included in note 12.

Credit risk is managed to minimise losses, maximise recoveries and prevent fraud through implementation of the group's credit policy. The 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 the asset being financed and the terms and conditions which are to be applied.

Compliance with the requirements of the policy is achieved by the existence of procedures in the areas of maximum funding periods and loan amounts, the requirement for deposits, deferral periods and authorisation limits. Customer scorecards and credit files, for commercial transactions and significant relationships, are an integral part of the approval process, with any material changes and significant advances requiring director and/or board approval.

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

Credit risk from balances with banks and financial institutions is managed by group treasury in accordance with the group's policy. Investments of surplus funds are made only with approved counterparties.

The credit risk on cash and derivative financial instruments is continually assessed in accordance with best practice as the counterparties are large banks, however the counterparties are banks with high credit ratings assigned by international credit rating agencies. The group policy is to assess all swap counterparties on an individual basis in terms of credit rating and the group's current exposure to that particular financial institution.

Consistent with previous periods, no change in the reported fair value of the group's financial liabilities for the period or cumulatively is attributable to a change in the group's own credit risk. This approach most faithfully represents the realistic valuation of these liabilities given the group's financial circumstances and plans. The changes in the fair value of financial liabilities shown in the financial statement are principally due to changes in market foreign exchange and interest rates. The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Notes to the consolidated financial statements

For the year ended 31 March 2011

28. Financial instruments, financial risk management objectives and risk management policies (cont'd)

Credit quality

	Group 2011 £'000	Group 2010 £'000	**Company 2011 £'000**	Company 2010 £'000
Gross loans and receivables:				
Neither past due nor impaired:				
Very low risk	**683,771**	541,520	**930,207**	745,674
Low risk	**344,659**	285,350	**344,659**	285,350
Moderate risk	**194,700**	187,836	**194,700**	187,836
High risk	**98,221**	93,584	**98,221**	93,584
Ungraded	**33,190**	54,025	**32,074**	49,201
Total	**1,354,541**	1,162,315	**1,599,861**	1,361,645
Past due but not impaired:				
31-60 days	**9,493**	10,395	**9,493**	10,395
61-90 days	**2,974**	3,924	**2,974**	3,924
91-120 days	**1,942**	2,166	**1,942**	2,166
>120 days	**5,085**	9,931	**5,085**	9,931
Total	**19,494**	26,416	**19,494**	26,416
Individually impaired	**17,868**	16,038	**17,785**	15,740
Total	**1,391,903**	1,204,769	**1,637,140**	1,403,801
Trade debtors:				
Neither past due nor impaired (ungraded)	**10,065**	8,541	**435**	262
Past due but not impaired:				
31-60 days	**2,942**	1,315	**110**	-
61-90 days	**967**	200	**31**	40
91-120 days	**995**	52	**30**	2
>120 days	**650**	940	**467**	892
Total	**5,554**	2,507	**638**	934
Individually impaired	**1,210**	1,124	**-**	328
Total	**16,829**	12,172	**1,073**	1,524

The group's risk ratings are determined at a facility level using both internal risk management inputs and external inputs from credit risk rating agencies. The inputs used are specific to the business unit in which the exposure exists, however a common risk matrix has been applied to determine 'like' ratings across the group. The matrix is based primarily on aligning estimates of probability of default, however also includes management judgement in determining risk categories. 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 in comparison, or the fact that they are short term in nature and are perceived to be low in inherent risk.

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

The group is also exposed to the credit quality of its counterparties where it has transacted derivatives which have gained a positive mark to market valuation (i.e. are an asset). This risk is minimised by only transacting with a controlled list of carefully selected counterparties that currently have a minimum long term rating of 'A' from Standard & Poor's and 'AA-' from the Japan Credit Rating agency.

Collateral held against the group's loans and receivables neither past due nor impaired was £9,279,000 (2010: £19,560,000).

Notes to the consolidated financial statements

For the year ended 31 March 2011

28. Financial instruments, financial risk management objectives and risk management policies (cont'd)

Fair value of financial assets and liabilities

	Carrying amount		Fair value	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Group:				
Financial assets:				
Cash and cash equivalents	**12,485**	10,406	**12,485**	10,406
Trade debtors	**15,619**	11,048	**15,619**	11,048
Loans and receivables	**1,132,684**	995,395	**1,132,406**	1,029,271
Derivatives in hedging relationships	**120,618**	137,122	**120,618**	137,122
Total	**1,281,406**	1,153,971	**1,281,128**	1,187,847
Financial liabilities:				
Bank overdraft	**3,558**	5,372	**3,558**	5,372
Trade creditors and accruals	**64,434**	41,048	**64,434**	41,048
Interest bearing borrowings	**1,417,839**	1,284,870	**1,444,231**	1,284,870
Derivatives not in hedging relationships	**129**	899	**129**	899
Derivatives in hedging relationships	**4,253**	8,702	**4,253**	8,702
Total	**1,490,213**	1,340,891	**1,516,605**	1,340,891
Company:				
Financial assets:				
Trade debtors	**1,074**	1,196	**1,074**	1,196
Loans and receivables	**1,378,047**	1,194,852	**1,377,769**	1,228,728
Derivatives in hedging relationships	**120,618**	137,122	**120,618**	137,122
Total	**1,499,739**	1,333,170	**1,499,461**	1,367,046
Financial liabilities:				
Bank overdraft	**3,558**	5,372	**3,558**	5,372
Trade creditors and accruals	**42,733**	30,642	**42,733**	30,642
Interest bearing borrowings	**1,417,839**	1,284,870	**1,444,231**	1,284,870
Derivatives not in hedging relationships	**129**	899	**129**	899
Derivatives in hedging relationships	**4,253**	8,702	**4,253**	8,702
Total	**1,468,512**	1,330,485	**1,494,904**	1,330,485

The fair value of financial assets and financial liabilities is determined in accordance with the following hierarchy:

- Level 1: The fair value of financial assets and financial liabilities with standard terms and conditions and traded on an active liquid market is determined with reference to quoted market prices.
- Level 2: The fair value of other financial assets and liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non optional derivatives, and option pricing models for optional derivatives.
- Level 3: The group does not have any level 3 instruments which would require valuation techniques using inputs which have a significant effect on the recorded value that are not based on observable market data.

Notes to the consolidated financial statements
For the year ended 31 March 2011

28. Financial instruments, financial risk management objectives and risk management policies (cont'd)

The following table shows an analysis of derivative financial instruments recorded at fair value by level of the fair value hierarchy. The group only has level 2 instruments and there have been no transfers between levels during the year.

	Level 2 2011 £'000	Level 2 2010 £'000
Financial assets:		
Interest rate swaps	**482**	-
Currency swaps	**120,136**	137,122
Financial liabilities:		
Interest rate swaps	**1,585**	6,229
Currency swaps	**2,797**	3,372

All swap counterparties have a minimum long term credit rating by Standard & Poor's of 'A' and short term rating of 'A-1'. Swap counterparty risk has thus been judged to be less than significant and hence not adjusted for when evaluating derivative financial instrument asset valuation.

Swap counterparty risk is managed through selection of counterparties with a minimum credit rating (long term credit rating by Standard & Poor's of 'A' and short term rating of 'A-1') and limiting the maximum exposure to each counterparty as measured using an internal risk weighted measurement.

The group utilises a securitisation programme whereby it sells consumer receivables to the Royal Bank of Scotland. Under IFRS, these assets are not derecognised from the financial statements since the majority of the risks and rewards are retained by the group. As at the reporting date, £400m (2010: £375m) of borrowings on the group consolidated statement of financial position are effectively secured against consumer receivables of £583m (2010: £519m). Were the securitisation scheme ever to be run down, for whatever reason, then the group is entitled to receive the surplus security over the period of run-off of the underlying receivables The group had previously arranged a similar scheme whereby assets were sold to a special purpose company. This agreement was terminated on 30 March 2011 and replaced by the current agreement. (See note 2(b) 'Basis of consolidation' on page 15.)

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.

Insurance risk
For detail on insurance risk and components thereof refer to note 24 of these financial statements.

Risk of economic downturn
A significant increase in unemployment could give rise to increased credit risk in our Consumer Finance business, along with that of increased payment protection claims in our Insurance Europe business.

Compliance and regulatory risk
This is the risk that changes in the regulatory framework within which we operate could reduce our ability to conduct business profitably in the future. There is also the risk that we fail to comply with legislation or regulations, leading to penalties imposed on us by the regulators.

The group's written risk policy does not tolerate any breach of regulation or other illegal activity. The company has an in-house legal department staffed by experienced practising solicitors who provide legal and compliance advice to each of the group's businesses in order to mitigate the risk of relevant regulatory requirements being breached. Also, the company is a member of the Finance & Leasing Association, which provides early warnings of potential legislative changes and actively lobbies decision makers in both the UK and the EU, with the aim of ensuring that its members continue to operate in an appropriate regulatory environment.

Business continuity risk
This is the risk that a disaster or other unexpected event occurs, leading to an inability to conduct our business under the terms agreed with our customers or suppliers. Such an event could have a negative impact on business relationships and lead to financial loss.

Company information

Hitachi Capital Corporation is the parent undertaking of the smallest group to consolidate the financial statements of Hitachi Capital (UK) PLC. Copies of the financial statements of this company can be obtained from: No 15-12, Nishi Shimbashi, 2 Chome, Minato-ku, Tokyo 105-8712, Japan.

Hitachi Limited, a company incorporated in Japan, is the ultimate parent company and the parent undertaking of the largest group to consolidate the financial statements of Hitachi Capital (UK) PLC. Copies of the financial statements of this company can be obtained from: 6, Kanda-Surugadai 4-chome, Minato-ku, Tokyo 101-8010, Japan.

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Website:	www.hitachicapital.co.uk
Registered company number:	1630491
Company Secretary:	J.N.M.Sims
Auditors:	Ernst & Young LLP London

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

Consumer Finance
2 Apex View
Leeds
West Yorkshire
LS11 9BH

Tel: 0844 375 5499
Fax: 0844 375 5491

Vehicle Solutions
Kiln House
Kiln Road
Newbury
Berkshire
RG14 2NU
Tel: 01635 589 500
Fax: 01635 589 750

Commercial Vehicles
Quarry House
Canal Road
Trowbridge
Wiltshire
BA14 8QU
Tel: 01225 777 710
Fax: 01225 776 680

Driving Instructor Vehicles
Welford Road
Kilby Bridge
Wigston
Leicester
LE18 3TE
Tel: 0116 288 8288
Fax: 0116 288 6404

Business Finance
Wallbrook Business Centre
Green Lane
Hounslow
Middlesex
TW4 6NW
Tel: 0208 572 7554
Fax: 0208 577 7775

Invoice Finance
5 Hollinswood Court
Stafford Park 1
Telford
Shropshire
TF3 3DE
Tel: 01952 213 300
Fax: 01952 201 410

Invoice Finance
Isis House
Red Cross Road
Goring on Thames
Reading
RG8 9HG
Tel: 01491 875 660
Fax: 01491 875 595

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