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Hitachi Capital (UK) PLC

Annual report and financial statements
Year ended 31 March 2012

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.

We provide finance and related products and services in a variety of sectors, whilst focussing on markets where we can provide value adding expertise, aiming to offer tailor made solutions that match 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.

We typically finance 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, servicing three separate markets: consumer finance, vehicle management and business finance.

Business units

(a) Consumer Finance
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, providing 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
We provide 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

The financial year ended 31 March 2012 was another year of slow economic growth and challenging macro economic conditions across the markets in which we operate. The economic environment has remained characterised by low interest rates, low company taxes and wage stability, and whilst this has staved off a further contraction in UK GDP there has also been very little growth. The economy has been held back by the effect of rising commodity prices, falling real household earnings, and the desire to reduce government expenditure. The low interest rate trading environment continues to be favourable for the group as we have maintained access to global sources of capital and continued to lend and invest in assets in the UK. Supporting our customers and strategic partners throughout the economic cycle has enabled us to increase total assets to £1.76bn (2011: £1.65bn).

Our Consumer Finance operation has experienced robust demand from retailers for point of sale finance and we have increased external customer revenue in the last year by 16.1% largely as a result of a growth in assets of 16.7%. Our Vehicle Solutions contract hire operation has grown its assets by 12.7%, despite a contracting market, through growth in the customer base. The Business Finance operation has made pleasing progress writing sustainable high quality direct and vendor based business. The Invoice Finance operation focussed on maintaining a high quality, strong returns portfolio, so despite difficult economic conditions this year profitability has remained stable.

Insurance Europe was placed into run off in April 2009 as the business did not fit the long term strategy for the group. We are pleased to report that the run off is proceeding to plan and the profit of £0.2m is a significant improvement on the prior year's loss of £3.5m. 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.

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 £50.1m (2011: £28.5m). This significant increase over the prior year has been largely driven by growth in revenue of 11.7% and reduced bad debts. Profit after additional finance items but before tax was £50.0m (2011: £26.8m).

The group charge for bad debt impairment was £11.9m, which was a significant improvement on last year's charge of £17.3m, due mainly to the improved quality of the group's portfolio and management of exposure to credit risk in the consumer portfolio.

Administration expenses for the year increased by 6.1% to £54.0m (2011: £50.9m), due to increased staff costs and numbers as the business has continued to grow.

The IAS39 fair value adjustment for the year was a loss of £0.02m (2011: loss of £0.02m) 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.

The effective tax rate was 23% (2011: 31%). It is expected that the effective rate of tax will be stable for the coming year.

The post tax return on equity was 30.7% (2011: 18.6%). The group operates a dividend policy to distribute up to 30% of profit after tax. An interim dividend of 8p per share was paid during the year (2011: 5p) and the directors have recommended that a further dividend of 19p per share be proposed and paid for the year ended 31 March 2012 (2011: 4.8p).

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 2012 was £1.5m (2011: £2.6m).

The group has a central treasury function, which manages the group's borrowings in accordance with agreed policies and procedures. Debt is raised taking into account each business unit's requirements and portfolio maturity profile. We raise multi currency fixed and floating debt in the major global markets. Derivatives are utilised to mitigate currency and interest rate risks. Analysis of borrowings is detailed in note 14 and derivative financial instruments are summarised in note 13. The gearing, after reflecting the effect of currency risk hedging, has decreased to 11.1 (2011: 13.1) 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 notes 2 and 29. Management of employees is detailed in the directors' report.

Group business review (cont'd)

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 Officer
20 June 2012

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 selected heads of function. 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 Chief Operating Officer attended meetings by invitation in order to ensure that all the information required by the 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 consolidated accounts, reviewing the findings of the external auditors and reviewing the effectiveness of the group's internal control 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 J-SOX 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.

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 at least twice a year.

Remuneration committee
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 also determine targets and remuneration for the various business unit heads and their sales teams, and approves 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 normally meets 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 2012 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 for making recommendations to the board.
- The Director of Internal Control maintains an overview of the areas of greatest risk to the business, along with the internal control processes designed to address those risks, and monitors compliance with policies and the effectiveness of the control structures across the group. The Group SOX Manager reports to the Director of Internal Control and also has direct access to the chairman of the audit and risk committee. In addition there are regular internal audit reviews of key business units in the group by the internal audit teams of Hitachi Capital Corporation and Hitachi Limited.

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

Throughout the year ended 31 March 2012, the group complied with the US' Sarbanes-Oxley legislation and Japan's Financial Instruments and Exchange Law (J-SOX), using the COSO framework, as a consequence of Hitachi Limited being listed on the New York and Tokyo Stock Exchanges. The key elements of the process included the following:

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

Hitachi Limited delisted from the New York Stock Exchange on 27 April 2012 but the group continues to comply with J-SOX as a consequence of Hitachi Limited's listing on the Tokyo Stock Exchange.

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

Directors' report

The board of directors present their annual report and audited financial statements for the year ended 31 March 2012.

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 2012 are set out in the consolidated income statement on page 11. An interim dividend of £3,414,000, 8p per share, was paid during the year (2011: £2,134,000, 5p). The directors recommend a final dividend of 19p per share (2011: 4.8p), giving a total dividend for the year of 27p per share (2011: 9.8p). The total distribution of dividends for the year to 31 March 2012 will be £11,514,000 (2011: £4,199,000). Further details regarding the dividend are set out in note 20 to the financial statements.

Donations
During the year the group gave £36,000 (2011: £39,000) 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 Japanese Red Cross Appeal, Leeds Mind, Heartbeat Appeal, Wheatfields Hospice and Sense. 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 29 (2011: 36).

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. Over the past year the performance management system was revised and a major exercise was undertaken to create a new grading structure for all job roles, identify appropriate pay ranges and benchmark salaries, and launch a flexible benefits programme.

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 environment 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:

G.Appelbe (resigned 9 June 2011)
R.Gordon
G.Grimes (appointed 9 June 2011)
Y.Ohashi
S.Oliphant
C.Shirai
H.Tozawa (appointed 1 April 2011)

In accordance with the company's Articles of Association, each of the directors will retire by rotation at the 2012 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:

- Select suitable accounting policies in accordance with IAS 8 (Accounting policies, changes in accounting estimates and errors) and then apply them consistently.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Provide additional disclosures when compliance with the specific requirements 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.
- State that the group has complied with IFRS's subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

Qualifying indemnity provisions
By virtue of Article 85 of the Articles of Association of the company, qualifying indemnity provision (within the meaning given by sections 234 and 235 of the Companies Act 2006) is in force at the date of this report in respect of each director of the company (and each director of its subsidiaries) and was in force throughout the year ended 31 March 2012 in respect of each person who was a director of the company (or one of its subsidiaries) at any time during that year.

Directors' report (cont'd)

Going concern
The group's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the business review above. 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 notes 2 and 29 to the financial statements.

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

Corporate governance statement
The corporate governance statement is on pages 5 and 6 of this annual report.

By order of the board.

J.N.M.Sims
Company Secretary
20 June 2012

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 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the statement of financial position - consolidated and company, the statement of changes in equity - consolidated and company, the statement of cash flows - consolidated and company and the related notes 1 to 30. 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 and financial statements 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 2012 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
20 June 2012

Consolidated income statement
For the year ended 31 March 2012

	Note	**2012 £'000**	2011 £'000
Revenue	5	**295,192**	264,287
Finance costs		**(23,898)**	(29,002)
Depreciation and impairment of operating leased assets	10	**(95,334)**	(79,949)
Maintenance expense on operating leased vehicles		**(27,721)**	(22,135)
Other cost of sales	6	**(32,279)**	(36,485)
Cost of sales	2.3(s)	**(179,232)**	(167,571)
Gross profit		**115,960**	96,716
Bad debts impairment charge	12	**(11,888)**	(17,321)
Administrative expenses	7	**(53,976)**	(50,864)
		(65,864)	(68,185)
Profit before additional finance items		**50,096**	28,531
Fair value loss on derivative financial instruments	13	**(21)**	(20)
Securitisation fees		**(49)**	(1,726)
Profit before tax		**50,026**	26,785
Income tax expense	8	**(11,710)**	(8,340)
Profit after tax		**38,316**	18,445

Consolidated statement of comprehensive income
For the year ended 31 March 2012

	Note	**2012 £'000**	2011 £'000
Profit after tax		**38,316**	18,445
Other comprehensive income:			
Actuarial (loss)/gain on defined benefit pension scheme	22	**(2,959)**	3,279
Income tax effect	8	**710**	(918)
(Loss)/gain on cash flow hedges taken to cash flow hedge reserve		**(7,356)**	11,295
Income tax effect	8	**1,767**	(3,161)
Recycled to finance costs in the income statement from cash flow hedge reserve	13	**438**	1,179
Income tax effect	8	**(105)**	(330)
Other comprehensive income for the year, net of tax		**(7,505)**	11,344
Total comprehensive income for the year, net of tax		**30,811**	29,789

Statement of financial position – consolidated and company

As at 31 March 2012

	Note	**Group 2012 £'000**	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Assets:					
Non current assets:					
Intangible assets	11	**16,767**	16,592	**7,325**	6,888
Investment in subsidiaries	3	**-**	-	**10,903**	10,903
Property, plant and equipment	10	**380,205**	329,843	**19,779**	14,377
Loans and receivables	12	**553,203**	622,708	**839,266**	868,695
Derivative financial instruments	13	**7,474**	46,732	**7,474**	46,732
Deferred tax asset	9	**-**	-	**3,774**	2,654
Retirement benefit asset	22	**1,517**	2,620	**1,517**	2,620
		959,166	1,018,495	**890,038**	952,869
Current assets:					
Loans and receivables	12	**714,708**	509,976	**714,435**	509,352
Derivative financial instruments	13	**41,474**	73,886	**41,474**	73,886
Inventories	16	**7,625**	11,852	**978**	287
Trade receivables and other assets	17	**24,738**	26,898	**6,361**	5,317
Cash and cash equivalents	18	**16,943**	12,485	**-**	-
		805,488	635,097	**763,248**	588,842
Total assets		**1,764,654**	1,653,592	**1,653,286**	1,541,711
Equity and liabilities:					
Equity and reserves attributable to equity holders:					
Share capital	19	**10,669**	10,669	**10,669**	10,669
Share premium account		**15,559**	15,559	**15,559**	15,559
Retained earnings		**103,750**	73,162	**54,457**	33,296
Cash flow hedge reserve		**(5,204)**	52	**(5,204)**	52
Total equity		**124,774**	99,442	**75,481**	59,576
Non current liabilities:					
Interest bearing borrowings	14	**623,334**	460,343	**623,334**	460,343
Derivative financial instruments	13	**14,584**	3,033	**14,584**	3,033
Other liabilities	23	**22,973**	12,580	**13,825**	792
Provisions	21	**6,093**	1,673	**5,766**	300
Deferred tax liability	9	**7,948**	5,241	**-**	-
		674,932	482,870	**657,509**	464,468
Current liabilities:					
Bank overdrafts	18	**522**	3,558	**522**	3,558
Interest bearing borrowings	14	**858,423**	957,496	**858,423**	957,496
Derivative financial instruments	13	**1,545**	1,349	**1,545**	1,349
Current tax liability		**13**	2,556	**1,482**	1,636
Provisions	21	**11,878**	13,483	**9,042**	6,860
Trade and other payables	23	**92,567**	92,838	**49,282**	46,768
		964,948	1,071,280	**920,296**	1,017,667
Total liabilities		**1,639,880**	1,554,150	**1,577,805**	1,482,135
Total equity and liabilities		**1,764,654**	1,653,592	**1,653,286**	1,541,711

The financial statements were approved by the board, authorised for issue on 20 June 2012 and signed on its behalf by:

C.Shirai
Chief Executive Officer

R.Gordon
Chief Operating Officer

Statement of changes in equity – consolidated and company

For the year ended 31 March 2012

	Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Cash flow hedge reserve £'000	Total £'000
Group:						
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
Dividends	20	-	-	(4,694)	-	(4,694)
At 31 March 2011		**10,669**	**15,559**	**73,162**	**52**	**99,442**
Profit for the period		-	-	38,316	-	38,316
Other comprehensive income		-	-	(2,249)	(5,256)	(7,505)
Dividends	20	-	-	(5,479)	-	(5,479)
At 31 March 2012		**10,669**	**15,559**	**103,750**	**(5,204)**	**124,774**
Company:						
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
Dividends	20	-	-	(4,694)	-	(4,694)
At 31 March 2011		**10,669**	**15,559**	**33,296**	**52**	**59,576**
Profit for the period		-	-	28,889	-	28,889
Other comprehensive income		-	-	(2,249)	(5,256)	(7,505)
Dividends	20	-	-	(5,479)	-	(5,479)
At 31 March 2011		**10,669**	**15,559**	**54,457**	**(5,204)**	**75,481**

Statement of cash flows – consolidated and company

For the year ended 31 March 2012

	Note	**Group 2012 £'000**	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Operating activities:					
Profit before tax		**50,026**	26,785	**38,223**	18,928
Non cash adjustment to reconcile profit before tax to net cash flows:					
Movements in property, plant and equipment	10	**94,518**	75,378	**4,153**	2,327
Movements in intangible assets	11	**1,609**	6,128	**1,237**	4,321
Fair value (gain)/loss on derivative financial instruments	13	**(417)**	1,199	**(417)**	1,199
Defined benefit pension scheme charge to income statement	22	**65**	401	**65**	401
Write down of investment in subsidiary		**-**	-	**-**	(1,535)
Working capital adjustments:					
Increase in receivables		**(133,065)**	(131,060)	**(176,696)**	(181,859)
Increase in payables & provisions		**12,937**	25,491	**23,195**	17,385
Decrease/(increase) in inventories		**4,227**	(2,561)	**(691)**	3,309
Cash contributions to defined benefit pension scheme	22	**(1,921)**	(1,073)	**(1,921)**	(1,073)
Income tax (paid)/received		**(9,175)**	(6,874)	**(8,237)**	(7,650)
Net cash flows from/(used in) operating activities		**18,804**	(6,186)	**(121,089)**	(144,247)
Investing activities:					
Purchase of property, plant and equipment:					
Operating leased assets	10	**(209,055)**	(200,322)	**(10,664)**	(5,904)
Other property, plant and equipment	10	**(3,326)**	(1,982)	**(618)**	(750)
Capitalised software purchase & development costs	11	**(1,784)**	(1,787)	**(1,674)**	(1,179)
Proceeds from sale of property, plant and equipment:					
Operating leased assets		**66,501**	63,018	**951**	3,058
Other property, plant and equipment		**1,000**	336	**776**	-
Payments to acquire intangible assets	11	**-**	(20)	**-**	-
Net cash flows used in investing activities		**(146,664)**	(140,757)	**(11,229)**	(4,775)
Financing activities					
Dividends paid to shareholders	20	**(5,479)**	(4,694)	**(5,479)**	(4,694)
Funding received		**342,191**	449,708	**342,191**	449,708
Funding repaid		**(201,358)**	(294,178)	**(201,358)**	(294,178)
Net cash flows from financing activities		**135,354**	150,836	**135,354**	150,836
Net increase in cash and bank overdrafts		**7,494**	3,893	**3,036**	1,814
Cash and bank overdrafts at beginning of year		**8,927**	5,034	**(3,558)**	(5,372)
Cash and bank overdrafts at end of year		**16,421**	8,927	**(522)**	(3,558)
Current assets – cash and cash equivalents		**16,943**	12,485	**-**	-
Current liabilities – bank overdrafts	18	**(522)**	(3,558)	**(522)**	(3,558)
Cash and bank overdrafts at end of year		**16,421**	8,927	**(522)**	(3,558)

Notes to the consolidated financial statements

For the year ended 31 March 2012

1. Corporate information

The consolidated financial statements of the group for the year ended 31 March 2012 were authorised for issue by the directors on 20 June 2012. Hitachi Capital (UK) PLC is a public limited company incorporated in the United Kingdom. The address of the registered office is given at the end of this report as is information on the ultimate parent undertaking. The principal activities of the group are described in note 4.

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) 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.

The financial statements have been prepared in accordance with the going concern principle under the historical cost basis, except for derivative financial instruments which are measured at fair value. The financial statements are presented in pound sterling and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the group and its subsidiaries as at 31 March 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra group balances, transactions and dividends are eliminated in full.

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 were 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. Due to the fact that the group did not meet derecognition requirements under IFRS, there was no material impact of the consolidation or deconsolidation of SOFA.

2.3 Summary of significant accounting policies

(a) 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. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

(b) Foreign currency translation

The presentational and functional currency of the group and its subsidiaries is pound sterling, which is the currency of the primary environment in which the group operates.

Transactions in currencies other than pound 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 swaps, the accounting policies of which are set out in notes 2.3(k) and 2.3(l).

Notes to the consolidated financial statements

For the year ended 31 March 2012

2.3 Summary of significant accounting policies (cont'd)

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

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

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

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

Insurance premiums
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.

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

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

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

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

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

(e) Insurance
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 (IBNR) 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.

Notes to the consolidated financial statements

For the year ended 31 March 2012

2.3 Summary of significant accounting policies (cont'd)

(e) Insurance (cont'd)
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.

(f) Taxes

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

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

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

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

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

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

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

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

- Freehold buildings — 50 years
- Leasehold improvements — Remaining term of the lease
- Fixtures, fittings and computer equipment — 4 years
- Motor vehicles — 3 to 6 years
- Operating leased assets — Term of the lease

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised. The assets' residual values, useful lives and methods of depreciation are reviewed at least annually and adjusted prospectively, if appropriate. 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.

Notes to the consolidated financial statements

For the year ended 31 March 2012

2.3 Summary of significant accounting policies (cont'd)

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

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

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

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

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

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

(i) Financial assets
Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The group determines the classification of its financial assets at initial recognition.

All financial assets are recognised on the trade date initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

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.

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.

Notes to the consolidated financial statements
For the year ended 31 March 2012

2.3 Summary of significant accounting policies (cont'd)

(i) Financial assets (cont'd)

Impairment of financial assets (cont'd)
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.

During the year, the transition was made to a roll rate methodology for calculating the loan loss provision within the consumer portfolio. There was no material impact on the loan loss provision as a result of transition and management believes that it will provide a more reliable basis on which to calculate the provision in the future.

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.

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

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

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that 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.

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

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

Notes to the consolidated financial statements

For the year ended 31 March 2012

2.3 Summary of significant accounting policies (cont'd)

(k) Derivative financial instruments (cont'd)

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 nil value at the time 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 underlying hedged item.

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.

(l) 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. 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 cash flow hedge reserve in equity are detailed in the statement of changes in equity on page 13.

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 fair value gain/loss on derivative financial instruments.

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.

Notes to the consolidated financial statements

For the year ended 31 March 2012

2.3 Summary of significant accounting policies (cont'd)

(m) Inventories

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

(n) Provisions

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

(o) Cash and cash equivalents

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

(p) 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.

(q) Impairment of non financial assets

The group assesses at least annually whether there is an indication that a non financial asset, e.g. goodwill, may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the group estimates the asset's recoverable amount. An asset's recoverable amount, or value in use, is determined for an individual asset or cash generating unit (CGU), unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The group bases its impairment calculation on detailed budget calculations, which are prepared separately for each of the group's CGU's. These budgets generally cover a period of five years; for longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the income statement.

(r) Pension benefits

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

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

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

(s) Reclassification of prior year comparatives

Prior year comparatives for the impairment of operating leased assets have been reclassified to conform with current year presentation, which effects the consolidated income statement and note 6. As a result, £2,755,000 has been reclassified from other cost of sales to depreciation and impairment of operating leased assets.

Notes to the consolidated financial statements

For the year ended 31 March 2012

2.4 Changes to standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the new and amended IFRS and IFRIC interpretations below.

(a) New and amended standards and interpretations

IFRS 7 Financial instruments: disclosures (amendment)
This amendment provides enhanced disclosures regarding 'Transferred financial assets that are derecognised in their entirety' and 'Transferred assets that are not derecognised in their entirety'. The effective date is for annual periods beginning on or after 1 July 2011 but this is not expected to have a significant impact on the group.

IAS 24 Related party disclosures (amendment)
This amendment clarifies the definition of a related party albeit without changing the fundamental approach to related party disclosures. It also emphasises a symmetrical view on related party relationships and clarifies how a person or member of key management personnel impacts related party relationships of an entity. The amendment is effective for financial years beginning on or after 1 January 2011 but there is no significant impact for the group.

Improvements to IFRS's
Other amendments relating to the following standards did not have any impact on the accounting policies, financial position or performance of the group:

- IFRS 3 Business combinations.
- IAS 1 Presentation of financial statements.
- IAS 27 Consolidated and separate financial statements.
- IAS 34 Interim financial statements.
- IFRIC 13 Customer loyalty programmes.
- IFRIC 19 Extinguishing financial liabilities with equity instruments.

(b) Standards issued but not yet effective

IFRS 9 Financial instruments
IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. As the impact of adoption depends on the assets held by the group at the date of adoption, it is not practical to quantify the effect. Phases two and three relating to impairment and hedge accounting are still being developed by the IASB and therefore no assessment can be made on the transitional impact.

IFRS 13 Fair value measurement
This amendment becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non financial assets and liabilities when required or permitted by IFRS. As the impact of adoption depends on the assets held by the group at the date of adoption, it is not practical to quantify the effect.

Other standards issued, but not yet effective, that will not have any significant impact on the group, include:

- IFRS 10 Consolidated financial statements.
- IFRS 11 Joint arrangements.
- IFRS 12 Disclosure of involvement with other entities.
- IAS 1 Financial statement presentation: presentation of items of other comprehensive income.
- IAS 12 Income taxes: recovery of underlying assets.
- IAS 19 Employee benefits

2.5 Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods; key areas are discussed below.

Fair value 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. Fair value hierarchies are discussed in note 15.

Notes to the consolidated financial statements

For the year ended 31 March 2012

2.5 Significant accounting judgements, estimates and assumptions (cont'd)

Impairment of financial assets
Discussed in note 2.3(i) above.

Impairment of non financial assets
Discussed in note 2.3(q) above.

Retirement benefit obligation
The cost of the defined benefit scheme and obligation is determined using actuarial valuations. This involves making assumptions about discount rates, 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 22.

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

Insurance provisions and related deferred insurance commissions
The key estimations involved for insurance provisions are discussed in note 2.3(e) above with further details provided in note 28. The estimate of reserves was changed during the year, further details of which are included in note 28.

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.

Provision for Consumer Credit Act (CCA) s75 claims
The group recognises a CCA s75 claims provision, which 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 accordance with the accounting policy stated in 2.3(n).

3. Investment in subsidiaries (company)

	2012 **£'000**	2011 £'000
At 1 April	**10,903**	9,368
Capital contributions	**-**	4,000
Write downs	**-**	(2,465)
At 31 March	**10,903**	10,903

The 2011 capital contributions were made to Hitachi Capital Insurance Europe Limited and resulted in a write down to reduce the investment to the level of equity in the subsidiary. The write down resulted in intercompany eliminations and therefore had no impact on the group financial statements.

	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

All subsidiaries are wholly owned and directly held by the company. In addition, the group was required to consolidate SOFA, a special purpose entity, until 30 March 2011, the principal activity of which was to act as a vehicle for the group's securitisation operations. 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.

Notes to the consolidated financial statements

For the year ended 31 March 2012

4. Operating segment information

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

The principal activities of each business unit are as follows:
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

No revenues earned from transactions with a single external customer (including groups under common control) amount to 10% or more of the group's revenues in either the 2012 or 2011 reporting periods. As the activities of the group are predominantly carried out in the UK no geographical analysis is presented. Inter segment sales are charged at prevailing market rates.

	HCCF £'000	HCVS £'000	HCBF £'000	HCIF £'000	HCIE £'000	Corporate £'000	Group £'000
Year ended 31 March 2012							
Revenue							
Interest income	98,715	-	-	7,084	-	-	105,799
Other external income	5,225	161,131	19,148	-	3,889	-	189,393
Inter segment	-	318	-	-	-	(318)	-
Total revenue	**103,940**	**161,449**	**19,148**	**7,084**	**3,889**	**(318)**	**295,192**
Results							
Finance (costs)/income	(15,548)	(5,479)	(3,285)	(671)	107	978	(23,898)
Depreciation, amortisation and impairment	(704)	(92,138)	(4,419)	(37)	(9)	(679)	(97,986)
Bad debt impairment	(10,332)	(1,292)	81	(345)	-	-	(11,888)
Profit/(loss) before tax	**34,134**	**13,914**	**2,086**	**2,007**	**232**	**(2,347)**	**50,026**
Income tax (expense)/credit	(8,875)	(2,156)	(542)	(522)	(221)	606	(11,710)
Profit/(loss) after tax	25,259	11,758	1,544	1,485	11	(1,741)	38,316
Assets	**1,010,869**	**400,555**	**224,029**	**59,553**	**11,743**	**57,905**	**1,764,654**
Liabilities	**928,801**	**348,315**	**213,318**	**56,414**	**3,937**	**89,095**	**1,639,880**
Other disclosures							
Capital expenditure	1,012	201,209	10,836	78	-	1,030	214,165
Year ended 31 March 2011							
Revenue:							
Interest income	85,244	-	-	6,413	-	-	91,657
Other external income	4,265	133,570	24,969	-	9,826	-	172,630
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, amortisation and impairment	(562)	(78,076)	(4,468)	(28)	(17)	(863)	(84,014)
Goodwill impairment	-	-	-	-	-	(2,767)	(2,767)
Bad debt impairment	(11,750)	(415)	(4,962)	(194)	-	-	(17,321)
Profit/(loss) before tax	22,146	11,449	1,301	1,989	(3,544)	(6,556)	26,785
Income tax (expense)/credit	(7,359)	(3,032)	(432)	(661)	965	2,179	(8,340)
Profit/(loss) after tax	14,787	8,417	869	1,328	(2,579)	(4,377)	18,445
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	1,126	196,273	6,110	22	5	575	204,111

Notes to the consolidated financial statements

For the year ended 31 March 2012

5. Revenue

	Note	**2012 £'000**	2011 £'000
Interest income		**105,799**	91,657
Finance lease income		**12,910**	18,716
Operating lease rental income		**155,795**	128,383
Insurance premiums	28	**3,849**	9,749
Fee income related to the activities above		**16,839**	15,782
Total revenue		**295,192**	264,287

6. Other cost of sales

	Note	**2012 £'000**	2011 £'000
Commission expense		**23,180**	25,972
Net insurance claims incurred	28	**472**	3,729
CCA 1974 section 75 charges and provisions	21	**7,031**	7,348
Disposal of leased assets, inventory and other expenses		**1,596**	(564)
Total other cost of sales	2.3(s)	**32,279**	36,485

7. Administrative expenses and auditor's remuneration

	2012 £'000	2011 £'000
Staff	**34,047**	29,009
Premises and office	**5,955**	5,980
IT and telephony	**5,004**	4,608
Marketing	**2,096**	1,358
Professional services and other	**6,218**	9,337
Auditor's remuneration		
Audit services	**584**	534
Tax services	**5**	4
Other services	**67**	34
Total	**53,976**	50,864

The number of full time equivalent employees at 31 March 2012 was 652 (2011: 584), which included permanent and temporary staff as well as those on fixed term contracts.

8. Income tax

	2012 £'000	2011 £'000
Current income tax		
Charge for the year	**11,085**	9,090
Adjustment in respect of prior years	**(4,454)**	(2,291)
Total	**6,631**	6,799
Deferred tax		
Origination and reversal of temporary differences in the current year	**1,107**	(810)
Adjustment in respect of prior years	**3,972**	2,351
Total	**5,079**	1,541
Tax charge on profit	**11,710**	8,340

Adjustments in respect of prior years are required due to the nature of the group's business, i.e. having a large number of assets qualifying for capital allowances. It is necessary, due to time constraints, to estimate the allowances available at the time the financial statements are prepared. This estimate tends to overstate the current tax liability and understate, by the same amount, deferred tax liability. This is largely due to the availability of first year allowances on some assets and short life asset elections for others. When the tax computations are prepared this can result in a swing between deferred and current tax. This would normally net out but at times of falling corporation tax rates this creates a net credit.

Notes to the consolidated financial statements

For the year ended 31 March 2012

8. Income tax (cont'd)

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	**2012 £'000**	2011 £'000
Revaluation of defined benefit pension scheme		**(710)**	918
Net (loss)/gain on revaluation of cash flow hedges		**(1,662)**	3,491
Total tax charged on items taken directly to equity	9	**(2,372)**	4,409

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

	2012 £'000	2011 £'000
Profit before tax	**50,026**	26,785
Tax on profit at UK corporation tax rate of 26% (2011: 28%)	**13,007**	7,500
Increase/(decrease) resulting from		
Adjustments in respect of prior years	**(482)**	60
Disallowable expenses and other adjustments	**94**	87
Amortisation of customer lists	**-**	493
Write down of goodwill	**-**	762
Release of provision for uncertain tax positions	**(49)**	(160)
Impact of rate change on net deferred tax liabilities	**(860)**	(402)
Tax charge	**11,710**	8,340

The UK rate of corporation tax reduced from 27% to 26% on 1 April 2011 and again from 26% to 24% from 1 April 2012. As a result the net deferred tax on the balance sheet was recalculated at 24%, rather than 26%, as required by IFRS. This created a reduction in tax charged in the year through the income statement of £860k; this also created increases in tax of £59k, in respect of the actuarial loss on the pension scheme, and £137k, in respect of derivative financial instruments, both of which were charged to equity. It has been announced that the UK rate of corporation tax will reduce to 23% from 1 April 2013 but this has not been enacted.

9. Deferred tax

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

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

	Accelerated tax depreciation £'000	**Retirement benefit obligations £'000**	**Derivative financial instruments £'000**	**Other £'000**	**Total £'000**
Group					
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)
Credit/(charge) to income statement	(4,545)	(393)	(79)	(62)	(5,079)
Charge to equity	-	710	1,662	-	2,372
At 31 March 2012	**(9,675)**	**(364)**	**1,867**	**224**	**(7,948)**
Company					
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
Credit/(charge) to income statement	(780)	(393)	(79)	-	(1,252)
Charge to equity	-	710	1,662	-	2,372
At 31 March 2012	**2,271**	**(364)**	**1,867**	**-**	**3,774**

Notes to the consolidated financial statements

For the year ended 31 March 2012

10. Property, plant and equipment

	Freehold property £'000	Motor vehicles £'000	Fixtures, fittings, computers and leasehold improvements £'000	Operating leased assets £'000	Total £'000
Group					
Cost					
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
Additions	-	1,067	2,259	209,055	212,381
Disposals	(150)	(380)	(604)	(132,791)	(133,925)
Stock movements	-	-	-	515	515
At 31 March 2012	**355**	**1,953**	**6,198**	**551,099**	**559,605**
Accumulated depreciation and impairment					
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
Charge for the year	6	342	860	93,346	94,554
Impairment loss	-	-	-	1,988	1,988
Eliminated on disposals	(22)	(131)	(494)	(67,676)	(68,323)
Stock movements	-	-	-	390	390
At 31 March 2012	**36**	**544**	**2,879**	**175,941**	**179,400**
Carrying amount					
At 31 March 2011	453	933	2,030	326,427	329,843
At 31 March 2012	**319**	**1,409**	**3,319**	**375,158**	**380,205**
Company					
Cost					
At 31 March 2010	150	-	3,190	17,550	20,890
Additions	-	-	750	5,904	6,654
Disposals	-	-	(864)	(7,658)	(8,522)
Stock movements	-	-	-	3,879	3,879
At 31 March 2011	150	-	3,076	19,675	22,901
Additions	-	-	618	10,664	11,282
Disposals	(150)	-	(496)	(4,057)	(4,703)
Stock movements	-	-	-	515	515
At 31 March 2012	**-**	**-**	**3,198**	**26,797**	**29,995**
Accumulated depreciation and impairment					
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
Charge for the year	1	-	563	4,104	4,668
Impairment loss	-	-	-	96	96
Eliminated on disposals	(22)	-	(401)	(3,039)	(3,462)
Stock movements	-	-	-	390	390
At 31 March 2012	**-**	**-**	**1,738**	**8,478**	**10,216**
Carrying amount					
At 31 March 2011	129	-	1,500	12,748	14,377
At 31 March 2012	**-**	**-**	**1,460**	**18,319**	**19,779**

Notes to the consolidated financial statements

For the year ended 31 March 2012

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

At 31 March 2012, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £31,059,000 (2011: £41,779,000), being assets to be leased to customers under operating leases. Management has determined that the necessary funding will be available from existing facilities to cover these commitments. The company had no such commitments.

Depreciation expense for the group of £93,346,000 (2011: £77,194,000) 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 £1,208,000 (2011: £911,000) was included in administrative expenses. The impairment losses recognised in operating leased assets in the financial years ended 31 March 2012 and 31 March 2011 are mainly as a result of the fall in used car prices.

11. Intangible assets

	Capitalised software £'000	Goodwill £'000	Other intangibles £'000	Total £'000
Group				
Cost				
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
Additions	1,784	-	-	1,784
Disposals	(772)	-	(3,264)	(4,036)
At 31 March 2012	**12,029**	**16,473**	**-**	**28,502**
Accumulated amortisation				
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
Charge for the year	1,443	-	-	1,443
Eliminated on disposals	(606)	-	(3,264)	(3,870)
At 31 March 2012	**8,968**	**2,767**	**-**	**11,735**
Carrying amount				
At 31 March 2011	2,886	13,706	-	16,592
At 31 March 2012	**3,061**	**13,706**	**-**	**16,767**
Company				
Cost				
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
Additions	1,674	-	-	1,674
Disposals	(761)	-	(840)	(1,601)
At 31 March 2012	**8,045**	**7,653**	**-**	**15,698**
Accumulated amortisation				
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
Charge for the year	1,074	-	-	1,074
Eliminated on disposals	(598)	-	(840)	(1,438)
At 31 March 2012	**5,606**	**2,767**	**-**	**8,373**
Carrying amount				
At 31 March 2011	2,002	4,886	-	6,888
At 31 March 2012	**2,439**	**4,886**	**-**	**7,325**

Notes to the consolidated financial statements

For the year ended 31 March 2012

11. Intangible assets (cont'd)

Carrying amount of goodwill by business segment	Invoice Finance £'000	Company £'000	Vehicle Solutions £'000	Group £'000
At 31 March 2011	4,886	4,886	8,820	13,706
At 31 March 2012	**4,886**	**4,886**	**8,820**	**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 2012, neither the group nor the company had any contractual commitments for the acquisition of intangible assets (2011: none).

Impairment testing

The recoverable amount for each cash generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a four year period. The pre tax discount rates applied to cash flow projections are shown below and cash flows beyond the four year period were extrapolated using a 2.8% growth rate (2011: 2.9%).

Recognition of impairment is considered 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.

Goodwill impairment charges

During the prior year, impairment charges were made against the goodwill relating to the acquisitions of Credit Solutions (Northern) Limited in 2000 and Industrial Equipment Finance Limited in 2004. Both businesses had been changed to such an extent that the goodwill was deemed to be impaired and was subsequently written down in full.

12. Loans and receivables

Movements in the allowance for impairment losses	**Group 2012 £'000**	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
At 1 April	**11,397**	14,615	**11,314**	14,317
Amounts written off	**(16,643)**	(24,851)	**(16,643)**	(24,809)
Recoveries	**2,747**	4,970	**2,674**	4,901
Charge to the income statement	**10,492**	16,663	**10,596**	16,905
Total at 31 March	**7,993**	11,397	**7,941**	11,314
Loans and receivables, gross of impairment	**1,275,904**	1,144,081	**1,561,642**	1,389,361
Loans and receivables, net of impairment	**1,267,911**	1,132,684	**1,553,701**	1,378,047

In addition to the above charge, bad debt impairment in the consolidated income statement includes charges relating to trade debtors of £1,396,000 (2011: £658,000). The total charge in the consolidated income statement is, therefore, £11,888,000 (2011: £17,321,000).

Finance lease receivables at 31 March	**Group 2012 £'000**	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Gross loans and receivables	**222,072**	204,991	**221,397**	203,792
Deferred revenue	**(20,893)**	(18,302)	**(20,883)**	(18,259)
Loans and receivables, gross of impairment	**201,179**	186,689	**200,514**	185,533

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12. Loans and receivables (cont'd)

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

Amounts due in	<1 year £'000	1-3 yrs £'000	3-5 yrs £'000	>5 yrs £'000	Total £'000
Group at 31 March 2012					
Finance leases	50,475	107,321	39,670	3,713	**201,179**
Instalment finance agreements	605,862	360,069	42,253	3,856	**1,012,040**
Other	62,685	-	-	-	**62,685**
Total	**719,022**	**467,390**	**81,923**	**7,569**	**1,275,904**
Group at 31 March 2011					
Finance leases	73,970	64,569	45,983	2,167	186,689
Instalment finance agreements	352,925	336,776	93,686	84,945	868,332
Other	89,060	-	-	-	89,060
Total	515,955	401,345	139,669	87,112	1,144,081
Company at 31 March 2012					
Finance leases	50,150	107,151	39,500	3,713	**200,514**
Instalment finance agreements	605,862	360,069	42,253	3,856	**1,012,040**
Other	62,685	-	-	-	**62,685**
Amounts owed by subsidiaries	-	-	-	286,403	**286,403**
Total	**718,697**	**467,220**	**81,753**	**293,972**	**1,561,642**
Company at 31 March 2011					
Finance leases	73,277	64,361	45,813	2,082	185,533
Instalment finance agreements	352,925	336,776	93,686	84,945	868,332
Other	89,060	-	-	-	89,060
Amounts owed by subsidiaries	-	-	-	246,436	246,436
Total	515,262	401,137	139,499	333,463	1,389,361

The unguaranteed residual value of assets leased under finance leases by the group at the reporting date is £5,000 (2011: £231,000). There are none for the company in either of the years stated. In accordance with the securitisation programme's terms and conditions, as at 31 March 2012 the group (and the company) had transferred £723,281,000 (2011: £583,042,000) of its instalment finance agreements to The Royal Bank of Scotland plc acting as a trustee. The group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as borrowings; the liability is £499,267,000 (2011: £399,822,000).

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 £59,239,000 (2011: £61,060,000) of loans and receivables are written at floating interest rates, and are therefore subject to cash flow interest rate risk.

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

	Group 2012		Group 2011		**Company 2012**		Company 2011	
	£'000	**%**	£'000	%	**£'000**	**%**	£'000	%
Finance leases	**198,982**	**6.3**	181,196	6.6	**198,369**	**6.3**	180,123	6.6
Instalment finance agreements	**1,006,930**	**9.6**	862,939	9.8	**1,006,930**	**9.6**	862,939	9.8
Other	**61,999**	**6.5**	88,549	4.9	**61,999**	**6.5**	88,549	4.9
Amounts owed by subsidiaries	**-**	**-**	-	-	**286,403**	**2.0**	246,436	2.6
Total	**1,267,911**	**9.0**	1,132,684	8.9	**1,553,701**	**7.7**	1,378,047	7.8

Notes to the consolidated financial statements

For the year ended 31 March 2012

13. Derivative financial instruments

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

2012	Yen £'000	Cross currency swap contracts USD £'000	AUD £'000	NZD £'000	Total £'000	Interest rate swap contracts Total £'000	Total £'000
Assets							
Less than 1 year	41,331	143	-	-	41,474	-	41,474
1 to 2 years	3,938	-	1,174	-	5,112	4	5,116
2 to 5 years	58	2,204	-	-	2,262	96	2,358
Total	45,327	2,347	1,174	-	48,848	100	48,948
Liabilities							
Less than 1 year	(1,179)	(21)	-	-	(1,200)	(345)	(1,545)
1 to 2 years	(5,971)	(1,306)	-	(177)	(7,454)	(1,106)	(8,560)
2 to 5 years	(2,797)	(1,631)	-	-	(4,428)	(1,596)	(6,024)
Total	(9,947)	(2,958)	-	(177)	(13,082)	(3,047)	(16,129)
Total	**35,380**	**(611)**	**1,174**	**(177)**	**35,766**	**(2,947)**	**32,819**
Of which,							
Designated as fair value hedges					35,600	-	35,600
Designated as cash flow hedges					166	(2,540)	(2,374)
Non designated					-	(407)	(407)

2011	Yen £'000	Cross currency swap contracts USD £'000	AUD £'000	HKD £'000	Euro £'000	Total £'000	Interest rate swap contracts Total £'000	Total £'000
Assets								
Less than 1 year	73,364	506	-	-	16	73,886	-	73,886
1 to 2 years	40,841	88	-	-	-	40,929	290	41,219
2 to 5 years	4,151	-	1,170	-	-	5,321	192	5,513
Total	118,356	594	1,170	-	16	120,136	482	120,618
Liabilities								
Less than 1 year	(135)	-	-	(179)	-	(314)	(1, 035)	(1,349)
1 to 2 years	(1,246)	(30)	-	-	-	(1,276)	(494)	(1,770)
2 to 5 years	(108)	(1,099)	-	-	-	(1,207)	(56)	(1,263)
Total	(1,489)	(1,129)	-	(179)	-	(2,797)	(1,585)	(4,382)
Total	116,867	(535)	1,170	(179)	16	117,339	(1,103)	116,236
Of which,								
Designated as fair value hedges						45,924	-	45,924
Designated as cash flow hedges						71,415	(974)	70,441
Non designated						-	(129)	(129)

The hedged cash flows are expected to occur and affect profit and loss in the periods up to March 2017 (2011: 2015) for cross currency swaps and to March 2017 (2011: 2014) for interest rate swaps.

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

Fair value loss on derivative financial instruments	2012 £'000	2011 £'000
Ineffective portion of cash flow hedges	**1,315**	(2,135)
Gain/(loss) on fair value hedging instruments	**9,265**	(14,803)
(Loss)/gain on the hedged item attributable to the hedged risk	**(10,323)**	16,148
(Loss)/gain on derivatives not in designated hedging relationships	**(278)**	770
Total loss recognised in the income statement	**(21)**	(20)
Item included within finance costs		
Recycled from cash flow hedge reserve	**438**	(1,179)

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For the year ended 31 March 2012

14. Interest bearing borrowings

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 carrying values and weighted average effective interest rates of borrowings are as follows:

	2012 £'000	**2012 %**	2011 £'000	2011 %
Bank and group borrowings	**477,290**	**1.70**	478,061	2.52
Commercial paper	**-**	**0.99**	8,775	0.86
Funding from securitised receivables	**499,267**	**1.24**	399,822	1.06
Medium term notes	**505,200**	**1.95**	531,181	1.93
Total	**1,481,757**	**1.58**	1,417,839	2.02

The borrowings are repayable as follows:

	Fixed 2012 £'000	**Floating 2012 £'000**	**Total 2012 £'000**	Fixed 2011 £'000	Floating 2011 £'000	Total 2011 £'000
Current liabilities						
On demand or within 1 year	**110,866**	**747,557**	**858,423**	179,989	777,507	957,496
Non current liabilities						
More than 1 year but less than 2	**75,287**	**78,769**	**154,056**	125,089	190,838	315,927
More than 2 years but less than 5	**142,490**	**326,788**	**469,278**	60,093	84,323	144,416
Total	**217,777**	**405,557**	**623,334**	185,182	275,161	460,343
Total	**328,643**	**1,153,114**	**1,481,757**	365,171	1,052,668	1,417,839

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 2012 or 2011 reporting periods.

An analysis of borrowings by currency is as follows:

	Sterling £'000	**Euro £'000**	**Yen £'000**	**US Dollar £'000**	**Aus Dollar £'000**	**N.Zealand Dollar £'000**	**Total £'000**
31 March 2011	573,547	10,842	707,410	116,403	9,637	-	1,417,839
31 March 2012	**715,424**	**223**	**479,754**	**271,520**	**9,715**	**5,121**	**1,481,757**

Bank overdrafts are repayable on demand and secured by the right of set-off against other cash balances held by certain group companies with the same bank (refer note 18). The average effective rate on overdraft balances for the year was 1.5% (2011: 1.5%) and is based on UK base rates plus an agreed margin. Other uncommitted borrowing facilities are available to the group from banks and other sources. Certain facilities are secured by the right of set-off against cash balances held by certain group companies at the same bank (refer note 18).

The group raises funding under its Euro 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.

The group utilises a securitisation programme whereby it sells consumer receivables to The Royal Bank of Scotland plc, which acts as a trustee (see note 12). Under IFRS, these assets are not derecognised from the financial statements since the majority of the risks and rewards are retained by the group. 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 SOFA, a special purpose company. This agreement was terminated on 30 March 2011 and replaced by the current agreement.

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15. Fair value of financial assets and financial liabilities

	Carrying amount		Fair value	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Group:				
Financial assets:				
Cash and cash equivalents	**16,943**	12,485	**16,943**	12,485
Trade debtors	**15,137**	15,619	**15,137**	15,619
Loans and receivables	**1,267,911**	1,132,684	**1,284,548**	1,132,406
Derivative assets	**48,948**	120,618	**48,948**	120,618
Total	**1,348,939**	1,281,406	**1,365,576**	1,281,128
Financial liabilities:				
Bank overdraft	**522**	3,558	**522**	3,558
Trade creditors and accruals, including balances due to invoice financing clients	**59,445**	64,926	**59,445**	64,926
Interest bearing borrowings	**1,481,757**	1,417,839	**1,515,996**	1,444,231
Derivative liabilities	**16,129**	4,382	**16,129**	4,382
Total	**1,557,853**	1,490,705	**1,592,092**	1,517,097
Company:				
Financial assets:				
Trade debtors	**1,298**	1,074	**1,298**	1,074
Loans and receivables	**1,553,701**	1,378,047	**1,570,338**	1,377,769
Derivative assets	**48,948**	120,618	**48,948**	120,618
Total	**1,603,947**	1,499,739	**1,620,584**	1,499,461
Financial liabilities:				
Bank overdraft	**522**	3,558	**522**	3,558
Trade creditors and accruals, including balances due to invoice financing clients	**42,797**	43,225	**42,797**	43,225
Interest bearing borrowings	**1,481,757**	1,417,839	**1,515,996**	1,444,231
Derivative liabilities	**16,129**	4,382	**16,129**	4,382
Total	**1,541,205**	1,469,004	**1,575,444**	1,495,396

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.

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	Level 2
	2012	2011
	£'000	£'000
Financial assets:		
Interest rate swaps	**100**	482
Currency swaps	**48,848**	120,136
Financial liabilities:		
Interest rate swaps	**3,047**	1,585
Currency swaps	**13,082**	2,797

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16. Inventories

	Group 2012 £'000	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Ex-leased assets held for resale	**7,430**	9,997	**978**	287
Stock of parts for vehicle refits	**195**	1,855	**-**	-
Total	**7,625**	11,852	**978**	287

17. Trade receivables and other assets

	Note	**Group 2012 £'000**	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Trade debtors and prepayments		**19,725**	19,030	**4,723**	3,918
Other debtors		**4,306**	3,774	**1,638**	1,399
Reinsurers' share of provision for unearned premiums	28	**148**	496	**-**	-
Reinsurers' share of provision for insurance claim liabilities	28	**44**	82	**-**	-
Deferred insurance commissions		**515**	3,516	**-**	-
Total		**24,738**	26,898	**6,361**	5,317

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

As at 31 March 2012, the trade debtors impairment provision was as follows:

	Group £'000	**Company £'000**
At 31 March 2010	1,124	328
Net increase/(decrease) for the year	86	(328)
At 31 March 2011	1,210	-
Net increase for the year	471	-
At 31 March 2012	**1,681**	**-**

The movement in deferred insurance commissions is analysed below:

	2012 £'000	2011 £'000
At 1 April	**3,516**	11,126
Charge to the income statement for the year		
Acquisition cost deferred during the year	**37**	(25)
Amortisation charged during the year	**(3,038)**	(7,585)
Total charge to the income statement for the year	**(3,001)**	(7,610)
At 31 March	**515**	3,516

18. Cash and cash equivalents and overdrafts

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

In accordance with the security arrangements of liabilities as disclosed in note 14 to the financial statements, a bank overdraft of £522,000 (2011: £3,558,000) 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.

19. Share capital

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

	2012 £'000	2011 £'000
Authorised		
80,000,000 ordinary shares at 25p each (2011: 80,000,000)	**20,000**	20,000
Issued and fully paid		
42,674,511 ordinary shares at 25p each (2011: 42,674,511)	**10,669**	10,669

Notes to the consolidated financial statements
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20. Dividends paid and proposed

	2012 £'000	2011 £'000
Declared and paid during the year		
Final dividend for the year ended 31 March 2011 of 4.8p per share (2010: 6p)	**2,065**	2,560
Interim dividend for the year ended 31 March 2012 of 8p per share (2011: 5p)	**3,414**	2,134
	5,479	4,694
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 2012 of 19p per share (2011: 4.8p)	**8,100**	2,065

21. Provisions

	CCA s75 claims £'000	**Onerous lease and dilapid-ations £'000**	**Company £'000**	**Unearned insurance premiums £'000**	**Insurance claim liabilities £'000**	**Group £'000**
At 31 March 2011						
Current	6,860	-	6,860	4,144	2,479	13,483
Non current	-	300	300	860	513	1,673
Total	6,860	300	7,160	5,004	2,992	15,156
Arising during the year	11,206	1,800	13,006	28	-	13,034
Utilised	(1,840)	-	(1,840)	(4,200)	(317)	(6,357)
Unused amounts reversed	(3,518)	-	(3,518)	-	(344)	(3,862)
At 31 March 2012	**12,708**	**2,100**	**14,808**	**832**	**2,331**	**17,971**
Analysed as						
Current	8,495	547	9,042	746	2,090	11,878
Non current	4,213	1,553	5,766	86	241	6,093

CCA s75 claims
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. The provision booked is based on current information and key assumptions regarding the expected level of claims relating to retailers experiencing difficulties and historical costs incurred to date in respect of claims.

Onerous lease and dilapidations
The company's registered office and Business Finance operation will move to new premises in 2012. As a consequence, lease arrangements are currently in place for two premises, and an onerous lease provision has been raised for the existing premises based on expected costs related to these premises and key assumptions with respect to the likelihood of sub letting. The dilapidations provision also relates to the company's registered office and is an estimate of the work required to bring it back to its original state at the end of the contract.

Unearned insurance premiums
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.

Insurance claim liabilities
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.

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22. Retirement benefit pension schemes

Defined contribution pension scheme

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

The total cost charged to the income statement of £818,000 (2011: £666,000) represents contributions payable to the scheme at rates specified in the rules of the plan. There were no unpaid contributions at either 31 March 2012 or 31 March 2011.

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 2012 by Lane Clark & Peacock, LLP, an independent qualified actuary, the calculations for which were based on the membership data used for the scheme's latest formal actuarial valuation as at 31 March 2010. 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:

	2012	2011
Retail price inflation	**3.3%**	3.5%
Discount rate (per annum)	**4.9%**	5.6%
Expected return on scheme assets	**5.6%**	6.4%
General salary increases	**3.3%**	3.5%
Pension increases in payment	**3.2%**	3.4%
Life expectancy of		
Male aged 65 now	**22.2 years**	22.1 years
Male age 65 in 20 years	**23.7 years**	23.6 years
Female aged 65 now	**24.5 years**	24.4 years
Female age 65 in 20 years	**26.0 years**	26.0 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 (service from 6 April 1988 to 5 April 1997) 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 4.0% above the expected long term return on long dated gilts (2011: 3.5%).

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

	2012 **£'000**	2011 £'000
Current service cost	**474**	590
Interest cost	**1,369**	1,464
Expected return on scheme assets	**(1,778)**	(1,653)
Charge for the year	**65**	401

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For the year ended 31 March 2012

22. Retirement benefit pension schemes (cont'd)

In addition, an actuarial loss of £2,959,000 (2011: gain of £3,279,000) has been recognised in the consolidated statement of comprehensive income. The actual return on scheme assets was a gain of £1,644,000 (2011: gain of £1,931,000).

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:

	2012	2011
	£'000	£'000
Present value of defined benefit obligations	**(28,428)**	(24,669)
Fair value of scheme assets	**29,945**	27,289
Asset recognised in the statement of financial position	**1,517**	2,620

Defined benefit pension scheme (cont'd)

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**	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
At 1 April	**27,289**	24,751	**(24,669)**	(26,082)
Current service cost	**-**	-	**(474)**	(590)
Expected return/interest cost	**1,778**	1,653	**(1,369)**	(1,464)
Contributions from scheme members	**133**	160	**(133)**	(160)
Contributions from the employer	**1,921**	1,073	**-**	-
Actuarial gains/(losses)	**(134)**	278	**(2,825)**	3,001
Benefits paid	**(1,042)**	(626)	**1,042**	626
At 31 March	**29,945**	27,289	**(28,428)**	(24,669)

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**	
	2012	2011	**2012**	2011
	%	%	**£'000**	£'000
Equity instruments	**7.1**	7.6	**16,049**	16,789
Bonds	**4.7**	5.3	**9,543**	7,758
Property	**5.1**	6.1	**2,777**	2,692
Cash	**-**	-	**35**	50
Diversified growth fund	**6.4**	-	**1,541**	-
Average/Total	**5.6**	6.4	**29,945**	27,289

The five year history of experience adjustments is as follows:

	2012	2011	2010	2009	2008
Present value of defined benefit obligations (£'000)	**(28,428)**	(24,669)	(26,082)	(17,768)	(22,634)
Fair value of scheme assets (£'000)	**29,945**	27,289	24,751	18,034	21,411
Defined benefit pension scheme (deficit)/surplus (£'000)	**1,517**	2,620	(1,331)	266	(1,223)
Experience adjustments on scheme liabilities					
Amount (£'000)	**(30)**	544	10	(107)	754
Percentage of scheme liabilities (%)	**-**	2	-	(1)	3
Experience adjustments on scheme assets					
Amount (£'000)	**(134)**	278	4,645	(5,426)	(2,218)
Percentage of scheme assets (%)	**-**	1	19	(30)	(10)

The estimated amount of contributions expected to be paid to the scheme during the year ending 31 March 2013 is £1,194,000.

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23. Trade and other payables and other liabilities

	Group 2012 £'000	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Current (trade and other payables)				
Balances due to invoice financing clients	**28,388**	29,449	**28,388**	29,449
Rentals in advance and deferred maintenance	**22,645**	17,793	**-**	-
Trade creditors and accruals	**31,057**	35,477	**14,409**	13,776
Other creditors	**10,477**	10,119	**6,485**	3,543
Total	**92,567**	92,838	**49,282**	46,768
Non current (other liabilities)				
Rentals in advance and deferred maintenance	**9,148**	11,788	**-**	-
Retailer liability	**13,825**	792	**13,825**	792
Total	**22,973**	12,580	**13,825**	792

24. Related party disclosures

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

- Administration fee of £97,000 (2011: £nil) 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 £332,000 (2011: £429,000). Amounts due from related parties in respect of operating leases at the year end were £22,000 (2011: £16,000).
- Interest paid to Hitachi companies of £1,423,000 (2011: £1,706,000). Amounts due to related parties in respect of interest expense at the year end were £208,000 (2011: £168,000).
- Borrowings from Hitachi companies outstanding at the year end were £108,664,000 (2011: £190,141,000).
- Charges of £1,033,000 (2011: £246,000) were paid to Hitachi group companies, including Hitachi Capital Corporation (parent company). Amounts payable to Hitachi Capital Corporation at the year end were £607,000 (2011: £481,000).
- Dividends paid to Hitachi Capital Corporation of £5,479,000 (2011: £4,694,000).

25. Remuneration of key management personnel

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

	2012 £'000	2011 £'000
Short term employee benefits	**2,222**	1,577
Amounts receivable under long term incentive plans	**695**	500
Post employment benefits	**47**	101
Total	**2,964**	2,178
Aggregate amount of remuneration paid to the directors	**2,222**	1,586
Highest paid director's remuneration in the year	**564**	512

There is one director for whom retirement benefits are accruing under the group's defined benefit scheme. The post employment benefits above relate mainly to the value of company contributions paid to the pension scheme on behalf of this director, who was not the highest paid director. There are no transactions with directors to be reported.

26. Operating lease arrangements

Lessee activities

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

	Group 2012 £'000	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Minimum lease payments under operating leases recognised in the income statement during the year				
Plant and equipment	**26**	44	**9**	37
Land and buildings	**733**	705	**573**	502
Total	**759**	749	**582**	539

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For the year ended 31 March 2012

26. Operating lease arrangements (cont'd)

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

	Group 2012 £'000	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Within 1 year	**1,329**	862	**976**	531
More than 1 year but less than 5	**4,847**	3,418	**3,770**	2,132
Over 5 years	**6,323**	2,904	**5,373**	1,672
Total	**12,499**	7,184	**10,119**	4,335

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. The increase in commitments is due to the new office premises discussed in note 21.

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 £155,795,000 (2011: £128,384,000).

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

	Group 2012 £'000	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Within 1 year	**119,319**	108,512	**5,145**	2,862
More than 1 year but less than 5	**148,840**	122,466	**9,664**	7,356
Over 5 years	**1,859**	2,025	**397**	574
Total	**270,018**	233,003	**15,206**	10,792

27. Contingent liabilities

There were no contingent liabilities as at 31 March 2012 (2011: none).

28. 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 was 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 managed 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.

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.

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For the year ended 31 March 2012

28. Insurance (cont'd)

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 two thirds of all policies are GAP risks and within this category 70% are finance GAP policies.

Premium income and unearned insurance premium

Net insurance premium revenue recognised during the year has been determined as follows:

	2012 £'000	2011 £'000
Gross written premiums	**28**	222
Reinsurance premiums (premiums accepted, then ceded to a third party insurer)	**(54)**	(204)
Net written premiums	**(26)**	18
Change in the gross provision for unearned insurance premiums	**4,172**	10,519
Change in the reinsurers' share of the provision for unearned insurance premiums	**(348)**	(787)
Change in the provision for unearned insurance premiums	**3,824**	9,732
Net insurance premiums earned	**3,798**	9,750

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

	Gross 2012 £'000	**Reinsurance 2012 £'000**	**Net 2012 £'000**	Gross 2011 £'000	Reinsurance 2011 £'000	Net 2011 £'000
At 1 April	**5,004**	**(496)**	**4,508**	15,319	(1,079)	14,240
Premiums written	**28**	**(54)**	**(26)**	222	(204)	18
Premiums earned	**(4,200)**	**402**	**(3,798)**	(10,537)	787	(9,750)
At 31 March	**832**	**(148)**	**684**	5,004	(496)	4,508

Claims expense and provision for insurance claims liabilities

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

	2012 £'000	2011 £'000
Claims incurred and loss adjustment expenses	**95**	3,905
Reinsurance recoveries in respect of claims incurred	**33**	(176)
Other	**344**	-
Net insurance claims incurred	**472**	3,729

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

	Gross 2012 £'000	**Reinsurance 2012 £'000**	**Net 2012 £'000**	Gross 2011 £'000	Reinsurance 2011 £'000	Net 2011 £'000
At 1 April	**3,695**	**(81)**	**3,614**	1,919	(143)	1,776
Losses and expenses incurred:						
Losses and expenses	**753**	**(4)**	**749**	2,631	(176)	2,455
IBNR movement	**(911)**	**37**	**(874)**	877	-	877
Claim expenses	**253**	**-**	**253**	397	-	397
Total	**95**	**33**	**128**	3,905	(176)	3,729
Increase in run off administrative expenses	**(27)**	**-**	**(27)**	703	-	703
Total payments in the year	**(756)**	**4**	**(752)**	(2,832)	238	(2,594)
At 31 March	**3,007**	**(44)**	**2,963**	3,695	(81)	3,614

Notes to the consolidated financial statements

For the year ended 31 March 2012

28. Insurance (cont'd)

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 95th percentile. The estimation of the IBNR reserve is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to HCIE, where information about the claim event is available. IBNR claims may not become apparent to the insurer until several months after the events, which gave rise to the claims, have occurred. Actual claims in recent years have been materially the same as that estimated. HCIE has adopted a policy of setting the level of provisions required by using claims triangulations and a qualified actuary.

In 2009 management decided to close HCIE to new business and restrict operations to managing outstanding policies, i.e. the business is in run off. All policies are contractually due to expire prior to the end of 2016, though approximately 60% of all live risks in place at the end of March 2012 will expire during the remainder of 2012. Policies have been cancelled where the terms and conditions allowed and others reinsured to reduce risk.

29. Financial risk management objectives and policies

29.1 Credit risk

The group's principal financial assets are cash and bank balances, loans and receivables, 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.

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. 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 meeting the minimum credit rating requirements and limiting the maximum exposure to each counterparty as measured using an internal risk weighted measurement.

The group does not have any financial liabilities designated at fair value through profit or loss, and therefore there has been no revaluation of financial liabilities for own credit risk. This includes financial liabilities in hedge relationships as the group does not hedge credit risk. The changes in the fair value of financial liabilities recognised in the income statement are principally due to changes in market foreign exchange rates and interest rates for those instruments in designated hedge relationships. The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

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For the year ended 31 March 2012

29.1 Credit risk (cont'd)

Credit quality

	Group 2012 £'000	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Gross loans and receivables and trade debtors:				
Neither past due nor impaired:				
Very low risk	**844,001**	683,771	**1,130,404**	930,207
Low risk	**408,202**	344,659	**408,202**	344,659
Moderate risk	**151,116**	194,700	**151,116**	194,700
High risk	**105,659**	98,221	**105,659**	98,221
Ungraded	**39,420**	43,255	**27,989**	32,509
Total	**1,548,398**	1,364,606	**1,823,370**	1,600,296
Past due but not impaired:				
31-60 days	**11,495**	12,435	**9,371**	9,603
61-90 days	**2,217**	3,941	**1,379**	3,005
91-120 days	**1,320**	2,937	**1,267**	1,972
>120 days	**4,378**	5,735	**4,365**	5,552
Total	**19,410**	25,048	**16,382**	20,132
Individually impaired				
Retail	**7,683**	3,874	**7,683**	3,874
Commercial	**5,722**	15,204	**3,989**	13,911
Total	**13,405**	19,078	**11,672**	17,785
Total	**1,581,213**	1,408,732	**1,851,424**	1,638,213
Gross loans and receivables	**1,564,397**	1,391,903	**1,850,125**	1,637,140
Trade debtors	**16,816**	16,829	**1,299**	1,073

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 but 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 but it 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, 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+'.

Collateral

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

Although lending decisions are predominantly based on expected cash flows, any collateral provided may impact the pricing and other terms of a loan or facility granted; this will have a financial impact on the amount of net interest income recognised and on internal loss given default estimates that contribute to the determination of asset quality. The group believes that this approach is appropriate.

The value of collateral is reassessed if there is observable evidence of distress of the borrower. Unimpaired lending, including any associated collateral, is managed on a customer by customer basis rather than a portfolio basis. No aggregated collateral information for the entire unimpaired lending portfolio is provided to key management personnel.

Notes to the consolidated financial statements

For the year ended 31 March 2012

29.1 Credit risk (cont'd)

A general description, as well as qualitative and quantitative information relating to collateral held as security in respect of loans and receivables in each business unit is provided below.

(a) Consumer Finance
In general, most lending is unsecured and therefore no collateral is held. However, for certain retailers, a portion of the cash flows financed are deferred and held by the group to cover possible future losses, see note 2.3(j) for more information. At the year ended 31 March 2012, deferred cash flows amounted to £13,825,000 (2011: £792,000), against related gross loans and receivables of £494,716,000 (2011: £22,728,000). There was no collateral held against gross loans and receivables amounting to £784,749,000 (2011: £1,075,123,000). Of the total gross loans and receivables, £7,683,000 was impaired at the year end (2011: £3,874,000).

(b) Vehicle Solutions
Vehicle Solutions has gross loans and receivables amounting to £675,000 (2011: £1,199,000), which relates to finance leases, the collateral for which is implied in the assets.

(c) Business Finance
Lending decisions are predominantly based on an obligor's ability to repay from normal business operations rather than reliance on the disposal of any security provided. Collateral values are rigorously assessed at the time of loan origination in line with credit risk policy (refer credit risk on page 41). Collateral values are only revisited after origination in the event of changes in the performance of the loans, e.g. customer default.

Asset based collateral of £75,695,000 (2011: £67,942,000) is held against gross loans and receivables of £52,832,000 (2011: £48,805,000). This collateral relates to the following:

- Block discounting arrangements for which collateral values are verified every three months by an internal audit team;
- Non performing agreements assessed as per the credit risk policy, including turbine aircraft pledged as security, valued by the International Bureau of Aviation, and other collateral.

There was no collateral held against gross loans and receivables amounting to £171,811,000 (2011: £159,420,000). Of the total gross loans and receivables, £3,614,000 was impaired (2011: £13,719,000).

(d) Invoice Finance
The gross loans and receivables for invoice finance, of £59,614,000 (2011: £61,252,000), are largely collateralised by the purchased book of receivables from factored clients and, in certain cases, personal guarantees to guard against shortfalls on collect outs due to disputes or fraud for which the guarantor will pay.

29.2 Liquidity risk and funding management

Liquidity risk is managed by the treasury committee and reviewed regularly. The group's objective is to maintain a balance between continuity of funding 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 uncommitted money market and overdraft facilities to provide short term financing.

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For the year ended 31 March 2012

29.2 Liquidity risk and funding management (cont'd)

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

	<1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Total £'000
At 31 March 2012						
Non derivative financial liabilities:						
Foreign currency denominated borrowings	(361,382)	(195,645)	(185,674)	(4,186)	(27,818)	(774,705)
Sterling borrowings	(5,145)	(3,532)	(216,766)	-	-	(225,443)
Securitisation	(318,788)	(136,842)	(49,714)	(14,443)	-	(519,787)
Trade payables	(92,567)	-	-	-	-	(92,567)
	(777,882)	**(336,019)**	**(452,154)**	**(18,629)**	**(27,818)**	**(1,612,502)**
Derivative financial liabilities:						
Foreign currency receipts relating to cross currency swaps	360,333	195,645	185,674	4,186	27,818	773,656
Sterling payments relating to interest rate swaps	(4,088)	(3,274)	(1,029)	(448)	(449)	(9,288)
Sterling receipts relating to interest rate swaps	18	-	-	-	-	18
Sterling payments relating to cross currency swaps	(322,660)	(195,720)	(184,390)	(3,972)	(28,823)	(735,565)
	33,603	**(3,349)**	**255**	**(234)**	**(1,454)**	**28,821**
At 31 March 2011						
Non derivative financial liabilities:						
Foreign currency denominated borrowings	(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)
Trade payables	(92,838)	-	-	-	-	(92,838)
	(884,237)	(463,030)	(171,030)	(15,133)	(6,408)	(1,539,838)
Derivative financial liabilities:						
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

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

The group's principal sources of funding are European medium term notes, a securitisation programme, 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.

Notes to the consolidated financial statements

For the year ended 31 March 2012

29.2 Liquidity risk and funding management (cont'd)

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

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

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

	Amount drawn 2012 £'000	**Capacity 2012 %**	Amount drawn 2011 £'000	Capacity 2011 %
US$1bn (2011: US$1.4bn) Euro medium term note programme	**505,200**	**19**	**531,181**	**39**
US$400m European commercial paper programme	**-**	**100**	**-**	**100**
€250m Belgian domestic commercial paper programme	**-**	**-**	**8,775**	**96**
£500m (2011: £400m) committed securitisation programme	**500,000**	**-**	**400,000**	**-**
£119m uncommitted facilities from relationship banks	**-**	**100**	**-**	**100**
£220m (£2011: £120m) uncommitted facility from Hitachi Europe	**2,700**	**99**	**119,000**	**1**

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

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

29.3 Market risk

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

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.

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.

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29.3 Market risk (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.

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

Where possible, floating to fixed IRS's are designated for accounting purposes as cash flow hedges in order to reduce the variability of charges to the group's income statement. In 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.

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

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

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

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 £4,685,000 (2011: £4,110,000). This is mainly attributable to the group's exposure to interest rates on variable rate borrowings.
- Other equity reserves would be debited by £11,892,000 (2011: £3,006,000) mainly as a result of the change in mark to market valuation of interest rate swaps in designated hedging relationships.

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

Foreign currency risk
The group's currency risk mainly arises from foreign currency borrowings. The carrying amount of the group's foreign currency denominated monetary 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 2012 and 31 March 2011, all currency exposures on non Sterling debt were 100% hedged.

Notes to the consolidated financial statements

For the year ended 31 March 2012

29.3 Market risk (cont'd)

Foreign currency sensitivity

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 pound Sterling strengthens against the respective currency.

For every 10% depreciation of GBP against foreign currencies, profit would decrease £5,000 (2011: £63,937) as a result of debt revaluation. A 10% appreciation of GBP against foreign currencies would have an equal and opposite effect. 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 (2011: nil).

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

29.4 Operational risk

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

29.5 Residual value risk

This is the risk that the value of a physical asset, at the end of an operating or finance lease contract or at the end of its useful life, is worth less than its book value. Residual value risk occurs within our Vehicle Solutions 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.

29.6 Capital management

The group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the group consists of debt, which includes borrowings disclosed in 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 19 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.

30. Events after the reporting period

On 10 April 2012 a company subsidiary, Hitachi Capital Invoice Finance Limited, was dissolved (see note 3). This dissolution had no material impact on the group as the entity itself was dormant with all operations, assets and liabilities having been transferred into the company in the year ended 31 March 2010.

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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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
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Fax: 01952 201 410

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