

**Company Registration No. 02214224**

**Mitsubishi Corporation International  
(Europe) Plc**

**Report and Financial Statements**

**31 March 2012**

# **Mitsubishi Corporation International (Europe) Plc**

## **Report and financial statements 2012**

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# **Mitsubishi Corporation International (Europe) Plc**

## **Report and financial statements 2012**

### **Officers and professional advisers**

#### **Directors**

T Terada  
T Aiba  
S Masuda  
T Nambu  
J Utsuki  
S Kowase  
Y Kitagawa

#### **Secretary**

H Nasu

#### **Registered Office**

Mid City Place  
71 High Holborn  
London  
WC1V 6BA

#### **Principal Bankers**

Bank of America Merrill Lynch  
5 Canada Square  
London  
E14 5AQ

#### **Solicitors**

Clifford Chance LLP

#### **Auditor**

Deloitte LLP  
Chartered Accountants and Registered Auditor  
London

# Mitsubishi Corporation International (Europe) Plc

## Directors' report

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

### Principal activities

The company's principal activities are those of trading in a broad range of commodities, industrial and consumer products, and the provision of services, including financing.

### Business review

Turnover for the year ended 31 March 2012 amounted to £599 million (2011: £705 million) and the gross profit percentage was 3.62% (2011: 3.40%). The decrease in turnover was mainly due to the reduction in aluminium transactions and the company's decision to transfer the business covered by the Chemical division in London to the company's subsidiary in Germany effective 1 July 2011. Profit for the year ended 31 March 2012 after taxation amounted to £58.6 million (2011: £14.3 million), this included dividend income of £50.2 million from the company's European subsidiaries. The company continued to perform well given the market conditions that continue to be challenging and the profits were primarily driven by the aluminium business within the Metal division and the long-term shipping contracts in the Machinery division.

Other operating income and expense for the current year amounted to £13.4 million which is lower than last year (2011: £15.9 million). There was a slight increase in service and management fee income and other income, however the company has recognised foreign exchange losses of £0.2 million (2011: gain £1 million) since exchange movements were less volatile and foreign currency transactions were reduced in the current year. This was compensated by a profit on transfer of the chemical business of £2.5 million (2011: £nil).

The stock holding level has increased by approximately £18 million to £150 million as at 31 March 2012 compared to the prior year (2011: £132 million). The amount held in stock at any one time will vary depending upon the timings of deliveries and transactions. The proportion of current liabilities to current assets is 79% which has reduced compared with the previous year (2011: 89%).

In October 2011, the company invested £1.2 million representing 10% of the share capital in a company called Diamond UK Transmission Corporation Limited (DUTC). The remaining 90% of the share capital is owned by Mitsubishi Corporation in Japan. DUTC has invested in offshore wind power transmission projects as part of the company's strategy to invest in renewable energy technology.

The total dividend income received during the year amounted to £52.9 million (2011: £5 million).

Overall, the directors are pleased with performance this year and expect that the company will continue to perform well under the prevailing difficult market conditions. The directors remain committed to further strengthening internal controls and compliance to manage the risks that the company is exposed to.

### Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the company continues to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements.

# Mitsubishi Corporation International (Europe) Plc

## Directors' report (continued)

### Future prospects

While the directors do not anticipate any significant changes in the business in the near future, the current economic environment does present a challenge to the company in maintaining this strong performance. This will not be an easy task and it is expected that market conditions and the prevailing economic environment will continue to present the company with new challenges.

The transfer of the Chemical business to the company's subsidiary in Germany, which has stronger networks and resources in the Chemical industry will, the company believes, enhance the company's chemical business as a whole. This reflects the company's flexibility to adapt to change and it is considered that the company is in a good position to deal with these challenges. The company will continue to strengthen its trading groups from the company's as well as the group's perspective as a whole. Internal controls that identify and manage risk exposures and good relationships with customers will continue to be fundamental management tools in the day-to-day business operations.

### Financial risk management objectives and policies

Because of the nature of the company's trading and business model, it is exposed to various risks, all of which are monitored and controlled. However these risks could potentially have a material impact on the company's performance. The principal areas of risk relate to credit risk, foreign exchange currency risk, interest rate risk, price risk and liquidity risk. These are briefly discussed below and in detail under note 20.

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk primarily arises since trade in most cases requires extending credit to customers, without which many would not trade with the company.

This risk is managed through taking out credit insurance wherever possible and also having rigorous monitoring and investigation carried out by the risk management department.

#### *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company trades in many products in many countries in different currencies and is exposed to currency risk.

To manage this, the company has established and follows a strict policy of entering into forward exchange contracts to match sales and purchases in different currencies, wherever this risk exists.

#### *Interest rate risk*

Interest rate risk is split into two different types of risks - cash flow interest rate risk and fair value interest rate risk.

Cash flow interest rate risk is the risk that the future cash flows of financial instruments will fluctuate because of changes in market interest rates. As the company has variable rate bank deposits and loans, it is exposed to cash flow interest rate risk.

Fair value interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in market interest rates.

A significant proportion of activity centres around funding made available to customers, for which interest is charged at a market rate. Funding for this is borrowed and so a potential risk of movements in interest rates arises on both the borrowing and lending side.

As a matter of policy, risk is managed by ensuring that lending is on the same basis as borrowing so movements on one side are matched by movements on the other side.

# Mitsubishi Corporation International (Europe) Plc

## Directors' report (continued)

### Financial risk management objectives and policies (continued)

#### *Price risk*

Price risk is the risk that commodities that are bought at market price will fall in value before the company has been able to sell them.

By the nature of its trading, the company is exposed to price risk. This risk is managed and controlled in different ways. Where possible the company enters into back-to-back transactions so that the buying price and selling price are fixed at the same time. Also for some of the commodities that are traded, there is a commodities exchange market. In this instance commodity futures are bought and sold to hedge physical trading positions.

#### *Liquidity risk*

Liquidity risk is the risk that the company will have insufficient short-term assets to finance short-term liabilities. The company has significant levels of short-term liabilities so it is open to liquidity risk.

The risk is managed by effective cash management and continual monitoring of short-term funding requirements and an enhanced risk management system to identify any potential problems early with the realisation of liquid assets. The company also has quick access to short-term funding from group sources.

The use of derivatives is governed by the company's policies approved by the board of directors, which provides written principles on the use of financial derivatives. The company wishes to strictly control risk positions that are taken. All foreign exchange risk should be hedged. Where price risk occurs this needs to be within pre applied limits and the company will use futures to hedge that exposure. The overall position is constantly monitored to ensure adherence to agreed limits.

### Dividends

The directors have recommended and paid a final dividend of £7,168,000 at the end of March 2012. Together with the interim dividend of £7,168,000 paid during the year, this gave a total dividend of £14,336,000 (2011: £15,332,000).

### Directors

The current directors are shown on page 1. The directors who served throughout the year, except as noted, and up to the date of this report were:

|            |                               |
|------------|-------------------------------|
| T Terada   |                               |
| Y Kitagawa |                               |
| T Aiba     | (appointed 14 April 2011)     |
| K Crisp    | (resigned 30 June 2011)       |
| K Suzuki   | (resigned 1 April 2012)       |
| K Morooka  | (resigned 1 April 2012)       |
| K Ishikawa | (resigned 30 September 2011)  |
| T Nambu    | (appointed 30 September 2011) |
| S Masuda   | (appointed 11 April 2011)     |
| Y Koike    | (resigned 14 April 2012)      |
| J Utsuki   | (appointed 1 April 2012)      |
| S Kowase   | (appointed 1 April 2012)      |

# Mitsubishi Corporation International (Europe) Plc

## Directors' report (continued)

### Charitable contributions

Contributions made to charities during the year amounted to approximately £14,000 (2011: £148,000).

### Supplier payment policy

The company's policy is to settle terms of payments with suppliers when agreeing the terms of each transaction and then to adhere to these terms. During the year average payment terms were 28 days (2011: 30 days).

### Auditor

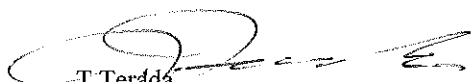
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is 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.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed by order of the Board



T Terada  
Managing Director

29 June 2012

# **Mitsubishi Corporation International (Europe) Plc**

## **Statement of directors' responsibilities**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## **Independent auditor's report to the members of Mitsubishi Corporation International (Europe) Plc**

We have audited the financial statements of Mitsubishi Corporation International (Europe) Plc for the year ended 31 March 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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, 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 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on matter prescribed in the Companies Act 2006**

In our opinion the information 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.



Anthony Morris (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

29 June 2012

## Mitsubishi Corporation International (Europe) Plc

### Profit and loss account Year ended 31 March 2012

|   | Notes | 2012<br>£'000 | 2011<br>£'000 |
|---|-------|---------------|---------------|
| Turnover  | 1, 2  | 598,544       | 704,944       |
| Cost of sales   |       | (576,878)     | (680,996)     |
| Gross profit  |       | 21,666        | 23,948        |
| Administrative expenses   |       | (30,955)      | (27,867)      |
| Other operating income and expenses   | 5     | 13,453        | 15,862        |
| <b>Operating profit</b>   | 4     | 4,164         | 11,943        |
| Dividend income from shares in group undertakings                           |       | 52,883        | 5,072         |
| Profit on transfer of the chemical business                                 | 6     | 2,550         | -             |
| Interest receivable and similar income                                      | 7     | 2,049         | 2,303         |
| Interest payable and similar charges  | 8     | (1,660)       | (1,771)       |
| <b>Profit on ordinary activities before taxation</b>                        |       | 59,986        | 17,547        |
| Tax charge on profit on ordinary activities                                 | 9     | (1,436)       | (3,211)       |
| <b>Profit on ordinary activities after taxation and profit for the year</b> | 17    | 58,550        | 14,336        |

All of the company's operations for both the current and the preceding financial years fall into the category of "Continuing Operations" as defined in Financial Reporting Standard 3.

It is not possible to determine the difference between the profit on ordinary activities (before and after taxation) and their historical cost equivalents. Given the nature of the business and the use of fair value accounting under the requirements of FRS 26, the historical cost equivalent is not meaningful.

# Mitsubishi Corporation International (Europe) Plc

## Statement of total recognised gains and losses Year ended 31 March 2012

|   | Notes | 2012<br>£'000 | 2011<br>£'000 |
|---|-------|---------------|---------------|
| Profit for the financial year   |       | 58,550        | 14,336        |
| Actuarial loss on pension scheme  | 21    | (475)         | (4,209)       |
| UK deferred tax attributable to actuarial loss  | 21    | 114           | 1,094         |
| Movement on cash flow hedges  | 20    | 1             | (45)          |
| UK deferred tax attributable to cash flow hedges  |       | -             | 12            |
| Fair value movement on investment   | 12    | (13)          | (198)         |
|   |       | <hr/>         | <hr/>         |
| Total recognised gains and losses since the last annual report and financial statements |       | <u>58,177</u> | <u>10,990</u> |

# Mitsubishi Corporation International (Europe) Plc


## Balance sheet

As at 31 March 2012

|   | Notes  | 2012<br>£'000         | 2011<br>£'000         |
|---|--------|-----------------------|-----------------------|
| Intangible assets   | 10     | 814                   | 994                   |
| Tangible fixed assets   | 11     | 114                   | 180                   |
| Investments   | 12     | 98,678                | 97,440                |
|   |        | <u>99,606</u>         | <u>98,614</u>         |
| <b>Current assets</b>   |        |                       |                       |
| Stocks  | 13     | 149,848               | 132,281               |
| Debtors   |        |                       |                       |
| Due within one year   | 14     | 276,987               | 250,337               |
| Due after more than one year                                  | 14     | 2,751                 | 3,046                 |
| Cash at bank and in hand                                      |        | 1,511                 | 2,389                 |
|   |        | <u>431,097</u>        | <u>388,053</u>        |
| <b>Creditors: amounts falling due within one year</b>         | 15     | <u>(341,987)</u>      | <u>(344,236)</u>      |
| <b>Net current assets</b>                                     |        | <u>89,110</u>         | <u>43,817</u>         |
| <b>Total assets less current liabilities</b>                  |        | <u>188,716</u>        | <u>142,431</u>        |
| <b>Creditors: amount falling due after more than one year</b> | 15     | <u>(6,165)</u>        | <u>(3,105)</u>        |
| <b>Net assets excluding pension asset</b>                     |        | <u>182,551</u>        | <u>139,326</u>        |
| <b>Pension asset</b>  | 21     | <u>1,884</u>          | <u>1,268</u>          |
| <b>Net assets</b>   |        | <u><u>184,435</u></u> | <u><u>140,594</u></u> |
| <b>Capital and reserves</b>                                   |        |                       |                       |
| Called up share capital                                       | 16, 17 | 120,658               | 120,658               |
| Hedging reserve   | 17     | 1                     | -                     |
| Revaluation reserve   | 17     | 462                   | 475                   |
| Profit and loss account                                       | 17     | 63,314                | 19,461                |
| <b>Shareholders' funds</b>                                    | 17     | <u><u>184,435</u></u> | <u><u>140,594</u></u> |

The financial statements of Mitsubishi Corporation International (Europe) Plc registered number 02214224 were approved by the Board of Directors on 29 June 2012.

Signed on behalf of the Board of Directors

  
T Terada  
Managing Director

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards. They have all been applied consistently throughout the current year and preceding year.

The financial statements have been prepared on the historical basis, except for the revaluation of certain financial instruments and stock. The principal accounting policies are set out below.

#### Group accounts

These financial statements present information about the company as an individual undertaking and not about its group. Consolidated financial statements have not been prepared as the company is a wholly-owned subsidiary of Mitsubishi Corporation, a company incorporated in Japan and so is therefore exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare and deliver group accounts.

#### Cash flow statement

The company has not prepared a cash flow statement under the FRS 1 exemption on the basis that the ultimate parent company produces publicly available consolidated accounts, which include a cash flow statement, into which the company's accounts are fully consolidated.

#### Going concern

The company has policies in place to ensure the risks mentioned in the directors' report and note 20 are within management's scrutiny. The company has strong risk management and treasury functions to oversee the current trading environment to minimise the impact of such risks. In addition the company has effective financing sources both from the group as well as third party banks.

As discussed in the business review section of the directors' report, the company has continued to perform well during the year ended 31 March 2012.

The company has a strong balance sheet with positive net current assets and shareholders' funds. Of the total borrowings of the company as at 31 March 2012 of £301.08 million, £298.41 million (2011: £280.09 million, £277.07 million) (bank loans, overdrafts and intergroup balances – see note 15) are short-term facilities. These are matched to a significant extent against amounts receivable from other group companies of £196.00 million (2011: £166.95 million) (see note 14) which are on terms similar to the borrowings and stock of £149.85 million (2011: £132.28 million) (see note 13), a large portion of which relates to commodities that are traded on international exchanges and therefore considered to be liquid and easily convertible to cash. While the bank borrowings and facilities are current and uncommitted, the directors are of the opinion that these will remain available to the company for the foreseeable future.

Based on the above factors, and after making enquiries, the directors have reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the company continues to adopt the going concern basis in preparing the annual report and accounts.

#### Intangible fixed assets

Software assets are valued at cost on acquisition and are amortised in equal annual amounts over their useful economic lives estimated to be approximately three years. Provision is made for any impairment.

#### Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided against cost in equal annual instalments over the estimated useful life of the asset. Office equipment has an estimated useful life of three or four years and all other assets have an estimated useful life of four years.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 1. Accounting policies (continued)

#### Stocks

Stocks except aluminium are stated at the lower of cost and net realisable value. Cost represents invoiced price together with, as appropriate, directly related overheads. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and cost to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or defective items where appropriate.

All aluminium stocks are revalued at the quoted price of aluminium at the London Metal Exchange (LME) at the balance sheet date, plus the approximate market premium/discount published by the Metal Bulletin at that date less costs to sell.

This is a departure from the requirement of SSAP 9 '*Stocks and long-term contracts*' and the directors believe that this is necessary to give a true and fair view. Under SSAP 9 stock would normally be valued at the lower of cost and net realisable value. This prescribed treatment would not give a true and fair view as aluminium is a traded commodity in a liquid market so is easily convertible into cash. In addition the company holds futures contracts with the London Metal Exchange against this aluminium stock. These contracts are held at fair value so if the aluminium price rises between contract date and balance sheet date, a loss is recorded through the profit and loss account. Under the prescribed treatment a corresponding profit on the physical stock held could not be recorded, thus creating a mismatch in the accounts and causing profits to fluctuate significantly from period to period. The impact of this departure is disclosed under note 13 to the financial statements.

#### Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes.

Turnover is recognised at the point where delivery of goods is made. For those transactions where the company takes significant risk in terms of stock, pricing or credit, turnover is recognised as principal. Where no significant risk passes to the company and the company acts as either agent or broker then only the commission receivable is recorded as turnover.

Interest income is recognised on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Other operating income consists mainly of fees charged for non-trading services and are recognised on an accruals basis.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

#### Foreign exchange

The company's financial statements are presented in pounds sterling which is the currency of the primary economic environment in which it operates and is deemed to be its functional currency.

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are translated at the rates prevailing on the dates of the transactions. Resulting differences on translation are charged or credited to the profit and loss account.

In order to hedge its exposure to certain foreign exchange risks the company enters into forward contracts. See below for details of the company policy on such derivatives and financial instruments.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 1. Accounting policies (continued)

#### Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the leases. For operating leases where the company acts as lessor, rental income is credited to the profit and loss account in equal instalments over the period of the lease.

#### Pension costs

The company operates both a defined benefit and a defined contribution pension scheme.

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

#### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at the amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 1. Accounting policies (continued)

#### **Financial instruments**

Financial assets and financial liabilities are recognised in the company's balance sheet when it becomes a principal party to the contractual provisions of the instrument.

#### **Trade receivables**

Trade receivables are measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate.

#### **Investments**

Investments are stated at cost less any provision for impairment in all cases where the ultimate holding company holds a majority stake, as the company has no control of the cash flows or the eventual selling price. All other investments, including investments held as current assets, are classified as available for sale and are stated at fair value unless this cannot be measured reliably in which case the investment is stated at cost less provisions for impairment. Changes in fair value are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Provisions for impairment are recognised in the profit and loss account.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### **Bank borrowings**

Interest bearing bank loans and overdrafts are recorded as the proceeds are received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

#### **Trade payables**

Trade payables are measured at amortised cost, using the effective interest rate method.

#### **Equity instruments**

Equity instruments issued by the company are recorded when the proceeds are received net of direct issue costs.



# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 1. Accounting policies (continued)

#### Financial instruments (continued)

##### *Derivative financial instruments and hedge accounting*

The company's activities expose it primarily to the financial risks of changes in price and changes in foreign currency exchange rates. The company uses foreign exchange forward contracts to hedge its foreign exchange exposure and uses futures as traded on the London Metal Exchange to hedge against any price risk exposure on its aluminium trading operations. The company only uses derivative financial instruments for speculative purposes to a limited extent with board approval.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The company designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

##### *Hedge accounting*

The company designates certain hedging instruments, which include derivatives, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking the various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis the company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Note 20 sets out the details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the statement of total recognised gains and losses and note 17.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the profit and loss account as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 1. Accounting policies (continued)

#### Financial instruments (continued)

##### *Hedge accounting (continued)*

The company also hedges the foreign currency exchange risks on certain long-term investments (the 'hedged item') that are denominated in US \$. Such investments are hedged against loans in the same foreign currency of the same value and similar maturity profile (the 'hedging instrument').

Fair value hedges that meet the hedge accounting criteria are accounted for as follows:

- The gain or loss from re-measuring the hedging instrument at fair value is recognised in the profit or loss account; and
- The carrying amount of the hedged item is adjusted through the profit or loss account for the gain or loss on the hedged item attributable to the hedged risk.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

### 2. Turnover

Turnover represents:

- gross sales with respect to transactions in which the company is named as principal;
- commission receivable for transactions in which the company acts as a disclosed settlement agent; and
- brokerage commission receivable.

Turnover comprises:

|           | 2012<br>£'000  | 2011<br>£'000  |
|-----------|----------------|----------------|
| Principal | 587,131        | 693,065        |
| Agency    | 3,476          | 4,036          |
| Brokerage | 7,937          | 7,843          |
|           | <u>598,544</u> | <u>704,944</u> |

In the opinion of the directors it is seriously prejudicial to the interests of the company to give an analysis of turnover, profit or net assets by geographical area. The directors are also of the opinion that the company's trading business constitutes one class of activity.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 3. Information regarding directors and employees

|   | 2012<br>£'000 | 2011<br>£'000 |
|---|---------------|---------------|
| <b>Directors' emoluments:</b>                               |               |               |
| Emoluments  | 2,170         | 1,894         |
| Company contributions to money purchase pension scheme      | 3             | 14            |
|   | <u>2,173</u>  | <u>1,908</u>  |
| <br>The number of directors who:                            |               |               |
|   | No.           | No.           |
| Are members of a money purchase pension scheme              | -             | 1             |
|   | <u>£'000</u>  | <u>£'000</u>  |
| Remuneration of the highest paid director                   | <u>992</u>    | <u>797</u>    |
|   | No.           | No.           |
| <b>Average number of persons employed</b>                   |               |               |
| Trading and administration                                  | <u>164</u>    | <u>163</u>    |
|   | <u>£'000</u>  | <u>£'000</u>  |
| <b>Employee costs (excluding directors' emoluments)</b>     |               |               |
| Wages and salaries  | 7,046         | 7,049         |
| Social security costs                                       | 912           | 794           |
| Pension costs   | 654           | 561           |
| Cost in respect of parent company's employees on secondment | <u>6,331</u>  | <u>6,648</u>  |
|   | <u>14,943</u> | <u>15,052</u> |

### 4. Operating profit

Operating profit is stated after charging the following amounts:

|   | 2012<br>£'000 | 2011<br>£'000 |
|---|---------------|---------------|
| Depreciation of tangible fixed assets   | 123           | 155           |
| Amortisation of intangible fixed assets   | 374           | 295           |
| Net rentals payable under operating leases - property                                 | 1,660         | 1,672         |
| Fees payable to the company's auditor for the audit of the company's annual accounts  | 176           | 172           |
| Fee payable to the company's auditor and their associates for services to the company |               |               |
| – other services pursuant to legislation  | 98            | 96            |
| – services relating to tax  | 194           | 297           |
| – Japanese SOX audit  | <u>115</u>    | <u>112</u>    |

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 5. Other operating income and expenses

|  | 2012<br>£'000 | 2011<br>£'000 |
|--|---------------|---------------|
| Other operating income and expenses          |               |               |
| Service and management fees and other income | 13,978        | 13,233        |
| Net foreign exchange (losses)/gains          | (226)         | 984           |
| Various other operating income and expense   | (299)         | 1,645         |
|  | <u>13,453</u> | <u>15,862</u> |

Service and management fees include management and IT recharges to various group companies for services provided.

### 6. Profit on transfer of the chemical business

The profit on sale of the chemical business resulted in a current tax charge of £663,000 at a tax rate of 26%.

### 7. Interest receivable and similar income

|   | 2012<br>£'000 | 2011<br>£'000 |
|---|---------------|---------------|
| Interest receivable from group undertakings | 971           | 1,263         |
| Interest receivable from associates         | 449           | 604           |
| Bank and other interest receivable          | 629           | 436           |
|   | <u>2,049</u>  | <u>2,303</u>  |

### 8. Interest payable and similar charges

|  | 2012<br>£'000 | 2011<br>£'000 |
|--|---------------|---------------|
| Interest on bank loans and overdrafts                                      | 81            | 97            |
| Interest payable to group undertakings                                     | 1,510         | 1,541         |
| Net interest on pension liabilities less expected return on pension assets | 36            | 133           |
| Other interest payable   | 33            | -             |
|  | <u>1,660</u>  | <u>1,771</u>  |

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 9. Tax charge on profit on ordinary activities

#### (i) Analysis of tax charge on ordinary activities

|   | 2012<br>£'000 | 2011<br>£'000 |
|---|---------------|---------------|
| United Kingdom corporation tax at 26% (2011: 28%) | 1,678         | 2,933         |
| Adjustment in respect of prior years              | (221)         | (650)         |
| Group taxation relief                             | (269)         | -             |
|   | <u>1,188</u>  | <u>2,283</u>  |
| Deferred tax                                      |               |               |
| Timing differences origination and disposal       | 248           | 928           |
|   | <u>1,436</u>  | <u>3,211</u>  |

#### (ii) Factors affecting tax charge for the current year

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK: 26% (2011: 28%). The differences are explained below:

|   | 2012<br>£'000  | 2011<br>£'000  |
|---|----------------|----------------|
| Profit on ordinary activities before tax                    | <u>59,986</u>  | <u>17,547</u>  |
| Tax at 26% (2011: 28%) thereon:                             | (15,596)       | (4,913)        |
| Effects of:   |                |                |
| Expenses not taxable/income not deductible for tax purposes | (142)          | (340)          |
| Pension adjustment  | 323            | 945            |
| Capital allowances in excess of depreciation                | 20             | 26             |
| Foreign tax suffered  | (33)           | (71)           |
| United Kingdom dividend income                              | 13,750         | 1,420          |
| Group relief for prior year                                 | 269            | -              |
| Prior year adjustments                                      | 221            | 650            |
|   | <u>(1,188)</u> | <u>(2,283)</u> |

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 9. Tax charge on profit on ordinary activities (continued)

#### (iii) Factors that may affect the future tax charge

The company has recognised deferred tax assets in respect of accelerated capital allowances, pension deficit under FRS 17 (see note 21) and the cash flow hedges deferred to equity.

#### Deferred tax

|                          | £'000      |
|--------------------------|------------|
| Deferred tax liabilities | -          |
| Deferred tax assets      | 345        |
|                          | <u>345</u> |

Deferred tax is provided as follows:

|   | At<br>1 April<br>2011<br>£'000 | Recognised<br>in income<br>£'000 | Recognised<br>in equity<br>£'000 | At<br>31 March<br>2012<br>£'000 |
|---|--------------------------------|----------------------------------|----------------------------------|---------------------------------|
| Accelerated tax depreciation and timing differences | 344                            | 1                                | -                                | 345                             |
| Others  | -                              | -                                | -                                | -                               |
|   | <u>344</u>                     | <u>1</u>                         | <u>-</u>                         | <u>345</u>                      |

Under UK GAAP, deferred tax is calculated at the tax rate that has been enacted or substantively enacted at the balance sheet date. The 2012 budget (delivered on 21 March 2012) announced a reduction of 1% in the UK corporation tax rate to 24% effective 1 April 2012. A resolution was passed by the UK Parliament to substantively enact the 24% rate on 26 March 2012. The 24% rate has been reflected in the calculation of deferred tax.

The Government has announced that it intends to introduce further reductions to the corporation tax rate, with the rate falling by 1% each year down to 22% by 1 April 2014. These further reductions to the tax rate have not been substantively enacted at the balance sheet date and are therefore not reflected in these financial statements.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 10. Intangible assets

|                                 | Software<br>cost<br>£'000 | Total<br>£'000 |
|---------------------------------|---------------------------|----------------|
| <b>Cost</b>                     |                           |                |
| At 1 April 2011                 | 1,995                     | 1,995          |
| Additions                       | 210                       | 210            |
| Disposals                       | (102)                     | (102)          |
| At 31 March 2012                | 2,103                     | 2,103          |
| <b>Accumulated amortisation</b> |                           |                |
| At 1 April 2011                 | 1,001                     | 1,001          |
| Charge for the year             | 374                       | 374            |
| Disposals                       | (86)                      | (86)           |
| At 31 March 2012                | 1,289                     | 1,289          |
| <b>Net book value</b>           |                           |                |
| At 31 March 2012                | 814                       | 814            |
| At 31 March 2011                | 994                       | 994            |

### 11. Tangible fixed assets

|                                 | Vehicles<br>£'000 | Furniture,<br>fixtures<br>and fittings<br>£'000 | Office<br>equipment<br>£'000 | Total<br>£'000 |
|---------------------------------|-------------------|---|------------------------------|----------------|
| <b>Cost</b>                     |                   |   |                              |                |
| At 1 April 2011                 | 20                | 2,043   | 415                          | 2,478          |
| Additions                       | -                 | 5   | 52                           | 57             |
| Disposals                       | -                 | -   | (1)                          | (1)            |
| At 31 March 2012                | 20                | 2,048   | 466                          | 2,534          |
| <b>Accumulated depreciation</b> |                   |   |                              |                |
| At 1 April 2011                 | 1                 | 1,971   | 326                          | 2,298          |
| Charge for the year             | 5                 | 53  | 65                           | 123            |
| Disposals                       | -                 | -   | (1)                          | (1)            |
| At 31 March 2012                | 6                 | 2,024   | 390                          | 2,420          |
| <b>Net book value</b>           |                   |   |                              |                |
| At 31 March 2012                | 14                | 24  | 76                           | 114            |
| At 31 March 2011                | 19                | 72  | 89                           | 180            |

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 12. Investments

|                              | Shares in<br>subsidiary<br>undertakings<br>£'000 | Shares in<br>other group<br>undertakings<br>£'000 | Investment<br>in associate<br>£'000 | Other<br>investments<br>£'000 | Total<br>£'000 |
|------------------------------|--|---|-------------------------------------|-------------------------------|----------------|
| <b>Cost</b>                  |  |   |                                     |                               |                |
| At 1 April 2011              | 87,010   | 2,805   | 3,442                               | 5,379                         | 98,636         |
| Additions                    | -  | 1,224   | -                                   | -                             | 1,224          |
| Disposals                    | -  | -   | -                                   | (563)                         | (563)          |
| Transfer                     | -  | (451)   | -                                   | 451                           | -              |
| Fair value movement          | -  | -   | -                                   | (13)                          | (13)           |
| Foreign currency revaluation | -  | -   | 27                                  | -                             | 27             |
| At 31 March 2012             | 87,010   | 3,578   | 3,469                               | 5,254                         | 99,311         |
| <b>Provision</b>             |  |   |                                     |                               |                |
| At 1 April 2011              | -  | 451   | -                                   | 745                           | 1,196          |
| Disposals                    | -  | -   | -                                   | (563)                         | (563)          |
| Transfer                     | -  | (451)   | -                                   | 451                           | -              |
| At 31 March 2012             | -  | -   | -                                   | 633                           | 633            |
| <b>Net book value</b>        |  |   |                                     |                               |                |
| At 31 March 2012             | 87,010   | 3,578   | 3,469                               | 4,621                         | 98,678         |
| At 31 March 2011             | 87,010   | 2,354   | 3,442                               | 4,634                         | 97,440         |

#### Shares in subsidiary undertaking

The shares in subsidiary undertakings represents the 5 Western European subsidiaries of Mitsubishi Corporation located in Germany, Spain, Italy, The Netherlands and France. The subsidiaries' principal activities relate to general trading of commodities and the provision of services.

Shareholdings in subsidiaries are as follows:

| Company name                     | Country of<br>incorporation | Shareholding<br>% | £'000         |
|----------------------------------|-----------------------------|-------------------|---------------|
| Mitsubishi International G.m.b.H | Germany                     | 100               | 59,312        |
| Mitsubishi France S.A.           | France                      | 100               | 15,072        |
| Mitsubishi Italia S.p.A          | Italy                       | 100               | 1,468         |
| Mitsubishi Nederland B.V.        | Netherlands                 | 100               | 7,292         |
| Mitsubishi Espana S.A.           | Spain                       | 100               | 3,866         |
| <b>Total</b>                     |                             |                   | <b>87,010</b> |

In the opinion of the directors, there is no impairment to the carrying value of the subsidiaries.



# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 12. Investments (continued)

#### Shares in other group undertakings

| Company name                                   | Country of<br>Incorporation | Shareholding<br>% | £                | Class    | Principal<br>business activity        |
|--|-----------------------------|-------------------|------------------|----------|---------------------------------------|
| Princes Limited                                | United Kingdom              | 10                | 700,000          | Ordinary | Trading in canned<br>foods            |
| Triland Metals Limited                         | United Kingdom              | 9.09              | 1,431,764        | Ordinary | Metal brokerage                       |
| Green Power Development                        | Netherlands                 | 0.12              | 82,787           |          | Development of<br>wind power projects |
| Mitsubishi Corporation LT<br>Europe G.m.B.H.   | Germany                     | 21.67             | 156,282          | Ordinary | Logistic services                     |
| Diamond UK Transmission<br>Corporation Limited | United Kingdom              | 10                | 1,208,120        | Ordinary | Offshore wind<br>power transmission   |
|  |                             |                   | <u>3,578,953</u> |          |                                       |

During the year the company has invested £1.2 million representing 10% of the share capital in a company called Diamond UK Transmission Corporation Limited (DUTC). The remaining 90% of the share capital is owned by Mitsubishi Corporation in Japan. DUTC will invest in offshore wind power transmission projects.

The investment in ERB Autokredit AG has been reclassified to 'other investments' because this company is currently under liquidation and Mitsubishi group has excluded this investment from 'group undertakings'. This investment was already fully impaired.

In the opinion of the directors, the fair value of the shares held in other group companies cannot be reliably measured because these investments do not have an active market. The company holds a minority share in these companies with the majority being held within the wider Mitsubishi group and as a result the company does not have any control over the cash flows or eventual selling price of these investments. The directors are of the opinion that it is not reasonable to assume a willing buyer exists for these investments given the above ownership circumstances. As a result it is not possible to determine fair value or a range of possible estimates within which fair value is expected to lie and as such the directors approximate the fair value to be equal to the carrying value.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 12. Investments (continued)

#### Investment in associates

This represents an investment of £3.5 million (US\$5.5million) in an Irish joint venture, Deucalion MC Engine Leasing Ltd (DMCELL), specialising in aircraft engine leasing in which the company has 40% shareholding. To avoid foreign currency movement, the company has a designated loan of the same amount as a fair value hedge of this investment.

The company has given a charge over its investment in DMCELL in conjunction with a third party bank facility provided to DMCELL. The total value of this facility is approximately US\$15m of which US\$10.6m is drawn down at year end.

All the above investments are unlisted.

#### Other investments

The majority of other investments relate to the £3.5 million (US\$5.5 million) investment in the hedge fund management companies – Capula Management Ltd ('CML') and Capula Investment Management LLP ('CIM'). The investment in CML is treated as an available for sale investment and it is fair valued with fair value changes recognised in equity while the investment in the CIM is accounted for in a manner similar to equity accounting.

The company has also invested £1.03 million representing 1.46% of the share capital of a Swedish company called Seabased AB which is developing 'sea wave' technology for power generation. As this is an innovative renewable energy technology which is currently at a developing stage, the company will monitor and review the performance and development of the investment on quarterly basis. This investment is treated as an available for sale investment and it is fair valued with fair value changes recognised in equity.

During the year the company has written off of its investment in Trade Ranger, an investment for procurement of materials and equipment through internet auction. However Trade Ranger's performance was below expectations for many years and in 2011 it was found that its liquidation had been completed. This investment had been fully impaired in 2002.

All other investments represent minority shareholdings in a number of companies ranging from food and internet companies that the company invested in to augment its trading activities. Certain investments have performed below expectations and provisions for impairment have been made. The directors estimate the carrying amount of these investments to be a fair approximation of the fair value.

### 13. Stocks

|                                     | 2012<br>£'000 | 2011<br>£'000 |
|-------------------------------------|---------------|---------------|
| Finished goods and goods for resale | 149,848       | 132,281       |

As stated in the accounting policies, certain items of stock are carried at fair value on the balance sheet date. The lower of cost and net realisable value of the total stock at 31 March 2012 would have been £149,848 (2011: £120,930).

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 14. Debtors

|   | 2012<br>£'000  | 2011<br>£'000  |
|---|----------------|----------------|
| <b>Amounts due within one year:</b>                               |                |                |
| Trade debtors   | 58,621         | 66,749         |
| Less: allowance for doubtful receivables                          | (1,818)        | (1,771)        |
|   | <u>56,803</u>  | <u>64,978</u>  |
| Amounts owed by parent company and fellow subsidiary undertakings | 196,001        | 166,947        |
| Amount owed by associates   | 4,139          | 5,777          |
| Loans to third parties  | 7,403          | 8,328          |
| Corporation tax receivable  | 2,207          | -              |
| Deferred tax assets (note 9)                                      | 345            | 344            |
| Prepayments and accrued income                                    | 1,049          | 2,270          |
| Derivative assets (note 20)                                       | 9,040          | 1,693          |
|   | <u>276,987</u> | <u>250,337</u> |
| <b>Amounts due after more than one year:</b>                      |                |                |
| Amount owed by associates   | 2,671          | 3,028          |
| Derivative assets – non current (note 20)                         | 62             | -              |
| Other receivables   | 18             | 18             |
|   | <u>2,751</u>   | <u>3,046</u>   |
| <b>Total debtors</b>  | <u>279,738</u> | <u>253,383</u> |

All trade debtors that are due within one year have a maturity of nine months or less and are non-interest bearing and therefore do not expose the company to interest rate risk.

The loans to fellow subsidiary undertakings have no fixed repayment terms. The loans carry interest at LIBOR plus an appropriate margin for group finance. In the opinion of the directors the carrying amount is a reasonable approximation of fair value. The long-term loan to the associated company carries interest at the company's borrowing rate plus an appropriate margin. The longest term of the loan expires in December 2014.

#### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company.

Credit risk also arises from trade receivables due to the fact that trading in most cases requires extending of credit to customers which otherwise may not trade with the company. The company's principal customers, suppliers and financial institutions with which it conducts business are spread across diverse geographical areas.

The company has stringent policies in place, managed by a specialist risk management team, which govern the management of credit risk, including the establishment of counterparty credit limits and specific transaction approvals in line with the company's delegation of authority. The company limits the credit risk by evaluating the potential counterparties before entering into transactions with them and continues to monitor and assess their creditworthiness after transactions have been initiated. Creditworthiness is assessed using information from various sources, an internal credit rating system and qualitative and quantitative data. The system of internal credit rating is based on complex statistical analysis, with customers being individually rated.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 14. Debtors (continued)

The company attempts to mitigate credit risk by using credit insurance wherever possible and rigorous monitoring of receivables. Depending on the creditworthiness of the counterparty the company may require collateral in the form of guarantees, letters of credit and cash. As at 31 March 2012 the company has credit exposure of £5.4 million (31 March 2011: £9.7 million) covered by parent and third party guarantees in relation to its trade receivables. Credit exposure to any low rated single non-related counterparty or any group of counterparties having similar characteristics is not considered to be significant. The company defines counterparties as having similar characteristics if they are connected entities.

Included in the company's trade receivables balance are debtors with a carrying amount of £ 0.14 million (31 March 2011: £0.36 million) which are more than 30 days overdue at the reporting date for which the company has not provided since there has not been a significant change in credit quality and the company believes that the amounts are still recoverable.

Below is the table showing the movement in doubtful provision against receivables which aged from current to over one year. Specific provisions are made against receivables where the prospect of collection is foreseen as unlikely.

#### *Movement in the allowance for doubtful receivables*

|                                      | 2012<br>£'000 | 2011<br>£'000 |
|--------------------------------------|---------------|---------------|
| Balance at the beginning of the year | 1,771         | 2,062         |
| Exchange difference                  | 23            | (98)          |
| Provision charged during the year    | 188           | 150           |
| Provision used during the year       | (27)          | -             |
| Provision reversed during the year   | (137)         | (343)         |
|                                      | <hr/>         | <hr/>         |
| Balance as at end of the year        | 1,818         | 1,771         |
|                                      | <hr/>         | <hr/>         |

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 15. Creditors

|   | 2012<br>£'000  | 2011<br>£'000  |
|---|----------------|----------------|
| <b>Amounts falling due within one year</b>                        |                |                |
| Bank loans and overdrafts (unsecured)                             | 12,551         | 19,065         |
| Trade creditors   | 40,408         | 40,063         |
| Amounts owed to parent company and fellow subsidiary undertakings | 285,860        | 258,000        |
| Corporation tax   | -              | 541            |
| Other taxation and social security                                | 923            | 2,969          |
| Derivative liabilities (note 20)                                  | 2,121          | 23,465         |
| Accruals and deferred income                                      | 124            | 133            |
|   | <u>341,987</u> | <u>344,236</u> |
| <b>Amounts falling due after more than one year</b>               |                |                |
| Amount owed to fellow subsidiary undertakings                     | 2,672          | 3,028          |
| Deferred Income   | 49             | 77             |
| Derivative liabilities (note 20)                                  | 74             | -              |
| Other payable   | 3,370          | -              |
|   | <u>6,165</u>   | <u>3,105</u>   |
| <b>Total creditors</b>  | <u>348,152</u> | <u>347,341</u> |

All trade creditors and amounts owed to the parent for trading transactions are due within one year and are non-interest bearing and therefore do not expose the company to interest rate risk. The long-term payable to fellow subsidiary undertakings has a matching long-term receivable from the associate (see note 14). The payable carries interest rate based on interest swap rates + approximately 1%.

|  | 2012<br>£'000              | 2011<br>£'000              |                             |
|--|----------------------------|----------------------------|-----------------------------|
| <i>Bank loans and overdrafts (Unsecured)</i> |                            |                            |                             |
| The borrowings are repayable as follows:     |                            |                            |                             |
| On demand or within one year                 | 12,551                     | 19,065                     |                             |
| <i>Analysis of borrowings by currency</i>    |                            |                            |                             |
|  | <b>GBP</b><br><b>£'000</b> | <b>EUR</b><br><b>£'000</b> | <b>US\$</b><br><b>£'000</b> |
| 31 March 2012                                |                            |                            |                             |
| Bank loans                                   | -                          | 2,880                      | 9,671                       |
| 31 March 2011                                |                            |                            |                             |
| Bank loans                                   | 26                         | 1,365                      | 17,674                      |

In the opinion of the directors the contracted interest rates for borrowings are not different from the effective interest rates and accordingly the carrying amount of bank loans and overdrafts and amounts owed to parent company and fellow subsidiary undertakings is a reasonable approximation of fair value. Further information in respect of interest rate risk is presented in note 20 to the financial statements.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 16. Called up share capital

|  | 2012<br>£'000  | 2011<br>£'000  |
|--|----------------|----------------|
| <b>Called up, allotted and fully paid:</b>                 |                |                |
| 120,658,154 (2011: 120,658,154) ordinary shares of £1 each | <u>120,658</u> | <u>120,658</u> |

### 17. Reconciliation of movements in shareholders' funds

|  | Share<br>capital<br>£'000 | Profit<br>and loss<br>account<br>£'000 | Hedging<br>reserve<br>£'000 | Revaluation<br>reserve<br>£'000 | Total<br>£'000 |
|--|---------------------------|--|-----------------------------|---------------------------------|----------------|
| At 1 April 2011  | 120,658                   | 19,461                                 | -                           | 475                             | 140,594        |
| Aggregated gains on cash flow hedges<br>(note 20)              | -                         | -                                      | 1                           | -                               | 1              |
| Actuarial loss on pension scheme<br>(note 21)                  | -                         | (475)                                  | -                           | -                               | (475)          |
| Fair value movement on investment<br>(note 12)                 | -                         | -                                      | -                           | (13)                            | (13)           |
| Profit retained for the year                                   | -                         | 58,550                                 | -                           | -                               | 58,550         |
| Dividend paid (note 24)  | -                         | (14,336)                               | -                           | -                               | (14,336)       |
| Deferred tax on items recognised in<br>equity (notes 21 and 9) | -                         | 114                                    | -                           | -                               | 114            |
| At 31 March 2012   | <u>120,658</u>            | <u>63,314</u>                          | <u>1</u>                    | <u>462</u>                      | <u>184,435</u> |

### 18. Contingent liabilities

1. Contingent liabilities at the year end incurred in the ordinary course of business are as follows:

|   | 2012<br>£'000 | 2011<br>£'000 |
|---|---------------|---------------|
| Commitments to honour the repayment of loan obligations | <u>56</u>     | <u>55</u>     |

2. As disclosed in note 20, the company acts as agent for other group companies in contracting foreign exchange forward contracts. Please refer to note 20 for further details.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 19. Operating lease commitments

At 31 March 2012, the company was committed to making the following payments during the next year in respect of operating leases:

|                            | <b>Land and buildings</b> |              |
|----------------------------|---------------------------|--------------|
|                            | <b>2012</b>               | <b>2011</b>  |
|                            | <b>£'000</b>              | <b>£'000</b> |
| Leases which expire:       |                           |              |
| after more than five years | 2,455                     | 2,455        |

### 20. Derivatives and financial instruments

#### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

#### Financial risk management objectives

The company's treasury function provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the company through internal risk reports which analyse exposures by degree and magnitude of risk. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The company seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the company's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments. Compliance with policies and exposure limits is reviewed by management on a continuous basis. It is not the policy of the company to enter into these derivative positions on a speculative basis except to a very limited extent with board approval, and firm rules and procedures are in place to ensure that the company follows these policies and that the company risk position is properly managed.

The company has entered into a number of financial instruments as part of its trading portfolio, which are used as hedging tools to match the risks that the company is exposed to. It is the company policy to use these financial instruments and derivatives to hedge outstanding assets and liabilities or transactions that have not yet been undertaken but to which there is a firm commitment or highly probable forecast transaction.

The company is exposed to certain risks and applies the appropriate hedge to match that risk. Where trading exposes the company to foreign exchange risk, forward exchange contracts are entered into to hedge the risk. If the company is exposed to credit risk it will, where appropriate, take out credit insurance to help manage that risk. Where it trades in commodities physically that are also traded on terminal markets it will use futures contracts to hedge any exposure that it may have.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 20. Derivatives and financial instruments (continued)

#### Financial risk management objectives (continued)

A summary of the financial instruments of the company, by category, including the estimate of fair value is as follows:

#### At 31 March 2012

|  | Loans and<br>receivables<br>£'000 | Available<br>for sale<br>£'000 | Amortised<br>cost<br>£'000 | Designated<br>hedging<br>relationships<br>£'000 | Held for<br>trading<br>£'000 | Total<br>carrying<br>value<br>£'000 | Fair value<br>£'000 |
|--|-----------------------------------|--------------------------------|----------------------------|---|------------------------------|-------------------------------------|---------------------|
| <b>Financial assets</b>                    |                                   |                                |                            |   |                              |                                     |                     |
| <b>Trade and other<br/>receivables</b>     |                                   |                                |                            |   |                              |                                     |                     |
| Non-derivative assets                      | 267,035                           | -                              | -                          | -   | -                            | 267,035                             | 267,035             |
| Derivative assets                          | -                                 | -                              | -                          | 1   | 9,101                        | 9,102                               | 9,102               |
| Available for sale<br>investments          | -                                 | 8,199                          | -                          | -   | -                            | 8,199                               | 8,199               |
| Cash and cash equivalents                  | 1,511                             | -                              | -                          | -   | -                            | 1,511                               | 1,511               |
| <b>Financial liabilities</b>               |                                   |                                |                            |   |                              |                                     |                     |
| <b>Trade and other payables</b>            |                                   |                                |                            |   |                              |                                     |                     |
| Non-derivative liabilities                 | -                                 | -                              | (112,121)                  | -   | -                            | (112,121)                           | (112,121)           |
| Derivative liabilities                     | -                                 | -                              | -                          | -   | (2,195)                      | (2,195)                             | (2,195)             |
| <b>Bank overdrafts and<br/>other loans</b> |                                   |                                |                            |   |                              |                                     |                     |
| Current                                    | -                                 | -                              | (230,241)                  | -   | -                            | (230,241)                           | (230,241)           |
| Non current                                | -                                 | -                              | (2,672)                    | -   | -                            | (2,672)                             | (2,672)             |

#### At 31 March 2011

|  | Loans and<br>receivables<br>£'000 | Available<br>for sale<br>£'000 | Amortised<br>cost<br>£'000 | Designated<br>hedging<br>relationships<br>£'000 | Held for<br>trading<br>£'000 | Total<br>carrying<br>value<br>£'000 | Fair value<br>£'000 |
|--|-----------------------------------|--------------------------------|----------------------------|---|------------------------------|-------------------------------------|---------------------|
| <b>Financial assets</b>                    |                                   |                                |                            |   |                              |                                     |                     |
| <b>Trade and other<br/>receivables</b>     |                                   |                                |                            |   |                              |                                     |                     |
| Non-derivative assets                      | 249,076                           | -                              | -                          | -   | -                            | 249,076                             | 249,076             |
| Derivative assets                          | -                                 | -                              | -                          | -   | 1,693                        | 1,693                               | 1,693               |
| Available for sale<br>investments          | -                                 | 6,988                          | -                          | -   | -                            | 6,988                               | 6,988               |
| Cash and cash equivalents                  | 2,389                             | -                              | -                          | -   | -                            | 2,389                               | 2,389               |
| <b>Financial liabilities</b>               |                                   |                                |                            |   |                              |                                     |                     |
| <b>Trade and other payables</b>            |                                   |                                |                            |   |                              |                                     |                     |
| Non-derivative liabilities                 | -                                 | -                              | (136,033)                  | -   | -                            | (136,033)                           | (136,033)           |
| Derivative liabilities                     | -                                 | -                              | -                          | -   | (23,465)                     | (23,465)                            | (23,465)            |
| <b>Bank overdrafts and<br/>other loans</b> |                                   |                                |                            |   |                              |                                     |                     |
| Current                                    | -                                 | -                              | (181,305)                  | -   | -                            | (181,305)                           | (181,305)           |
| Non current                                | -                                 | -                              | (3,028)                    | -   | -                            | (3,028)                             | (3,028)             |

Please refer to note 12 for further disclosure on the fair value on available for sale investments. In the opinion of the directors, the carrying values of the financial instruments above approximate to the fair values.



# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 20. Derivatives and financial instruments (continued)

#### Financial risk management objectives (continued)

The fair value of the derivative financial instruments at the balance sheet date was as follows:

|                                    | 2012<br>£'000 | 2011<br>£'000 |
|------------------------------------|---------------|---------------|
| Assets:                            |               |               |
| Current derivative assets          |               |               |
| - Currency derivatives             | 810           | 98            |
| - Aluminium commodity futures      | 8,230         | 1,595         |
|                                    | <u>9,040</u>  | <u>1,693</u>  |
| Non-current derivative assets      |               |               |
| - Currency derivatives             | 22            | -             |
| - Aluminium commodity futures      | 40            | -             |
|                                    | <u>62</u>     | <u>-</u>      |
| Liabilities:                       |               |               |
| Current derivative liabilities     |               |               |
| - Currency derivatives             | 277           | 1,583         |
| - Aluminium commodity futures      | 1,844         | 21,882        |
|                                    | <u>2,121</u>  | <u>23,465</u> |
| Non-current derivative liabilities |               |               |
| - Currency derivatives             | 1             | -             |
| - Aluminium commodity futures      | 73            | -             |
|                                    | <u>74</u>     | <u>-</u>      |

The fair values for currency derivatives were calculated using the closing price published in The Financial Times on the second last working day of the month. The fair values for commodity futures were calculated using the applicable closing rates on the London Metal Exchange.

#### Hedge accounting

The hedging transactions the company undertakes that are not recognised through the profit and loss account are cash flow hedges in respect of foreign exchange forward contracts and other financial instruments used to hedge variations in cash flows likely to arise out of changes in foreign currency exchange rates and commodity prices for highly probable forecast future transactions and firm commitments.

In addition, the company also fair value hedge accounts for its investment in associate. The only risk hedged is foreign currency risk as this investment is US\$ denominated and is hedged by equivalent borrowings also denominated in US\$. The total exchange gain recognised in the profit and loss account on this investment during the year as a result of this fair value hedge was £27,000 (2011: £228,000), offset by a loss of a similar amount on the loan.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 20. Derivatives and financial instruments (continued)

#### Hedge accounting (continued)

Below is a summary of the aggregate gains and losses that are recognised directly in equity:

|  | 2012<br>£'000 | 2011<br>£'000 |
|--|---------------|---------------|
| Aggregated gains on foreign exchange hedges                  | 1             | -             |
| Aggregated losses on foreign exchange hedges                 | -             | -             |
| Net gain on foreign exchange hedges                          | 1             | -             |
| Gains for the year deferred to equity                        | 1             | -             |
| Recycling of amounts from hedging reserve to profit and loss | -             | (45)          |
| Net gain/(loss) for the year (note 17)                       | 1             | (45)          |

As at 31 March 2012, there were two designated and effective cash flow hedges which have been deferred in equity.

The following table details the forward foreign currency contracts outstanding as at the year end designated for cash flow hedges:

| Outstanding contracts   | Foreign currency |        | Contract value |       | Fair value |       |
|-------------------------|------------------|--------|----------------|-------|------------|-------|
|                         | 2012             | 2011   | 2012           | 2011  | 2012       | 2011  |
| <b>Cash flow hedges</b> |                  |        |                |       |            |       |
| Buy US dollars          | \$'000           | \$'000 | £'000          | £'000 | £'000      | £'000 |
| Less than 3 months      | 578              | 63     | 364            | 40    | 1          | -     |
| More than 3 months      | -                | -      | -              | -     | -          | -     |
| Sell US dollars         |                  |        |                |       |            |       |
| Less than 3 months      | -                | 10     | -              | 6     | -          | -     |
|                         |                  |        | 364            | 46    | 1          | -     |

Effectiveness testing is carried out on each cash flow hedge on inception and at the reporting dates. Management have assessed the above hedges to be highly effective.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 20. Derivatives and financial instruments (continued)

#### Market risk

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

- forward foreign exchange contracts to hedge the exchange rate risk; and
- futures as traded on the exchanges to hedge against any price risk exposure on its aluminum and sugar trading operations.

The major commodity traded in the current year was aluminium. The company's risk management objective and strategy for undertaking the hedge is to eliminate any commodity price risk within a transaction in line with the company and departmental guidelines and rules concerning the internal risk position.

Market risk exposures are measured using sensitivity analysis, disclosed below. There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk over the last financial year.

#### Commodity price risk exposure

The company utilises derivative contracts to hedge price fluctuation on aluminium. The company buys and sells commodity futures on the commodity exchanges as a means to hedge its price risk exposure. The futures are traded on a back-to-back basis with each physical contract and as a result very few speculative positions are held.

At the balance sheet date, total notional amount of outstanding future commodity contracts was as follows:

|               | Aluminium     |                |
|---------------|---------------|----------------|
|               | £'000<br>Long | £'000<br>Short |
| 31 March 2012 | 186,481       | 321,784        |
| 31 March 2011 | 228,796       | 313,672        |

These futures contracts cover a variety of settlement periods beyond the balance sheet date, the latest one being due for settlement in October 2013.

The ranges that have been used in the fair value of the material commodity derivatives are as follows:

Aluminium: US\$2,094 – US\$2,260 per metric ton (2011: US\$2,625 – US\$2,693 per metric ton)

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 20. Derivatives and financial instruments (continued)

#### Commodity price risk exposure (continued)

The sensitivity analysis demonstrates the difference and risk that could affect the company's profit due to the market and price risk associated with aluminium trading. The following sensitivity analysis has been carried out on the fair values of the commodity derivatives:

|                   | 2012                              |                                    |
|-------------------|-----------------------------------|------------------------------------|
|                   | Impact on profit and loss account |                                    |
|                   | Lowest case<br>(loss)<br>£'000    | Highest case<br>(profit)<br>£ '000 |
| Aluminium futures | 3,836                             | 1,410                              |
| Total             | 3,836                             | 1,410                              |

|                   | 2011                              |                                    |
|-------------------|-----------------------------------|------------------------------------|
|                   | Impact on profit and loss account |                                    |
|                   | Lowest case<br>(loss)<br>£'000    | Highest case<br>(profit)<br>£ '000 |
| Aluminium futures | 2,164                             | 675                                |
| Total             | 2,164                             | 675                                |

The highest and lowest cases were picked up from the highest and lowest monthly average premium, contango/backwardation and published market price data from the last 3 years. This is consistent with the data and calculations used by management in their internal risk management process.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 20. Derivatives and financial instruments (continued)

#### Foreign currency risk management

The company's treasury department will undertake cash management to ensure the foreign currency cash balances are maintained as working capital based on the estimate of future needs. When a transaction results in a foreign exchange exposure in any currency then this exposure is hedged by the treasury department. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

A significant portion of the company's earnings are denominated in foreign currencies. Consequently the company has significant risk in the translation of these earnings to its functional currency in GBP. The foreign currency profits before tax by major currency (other than GBP) for the company are:

|           | 2012<br>£'000 | 2011<br>£'000 |
|-----------|---------------|---------------|
| US Dollar | 15,603        | 19,667        |
| EUR       | 466           | 2,001         |
| JPY       | 4,772         | 4,729         |

The company manages the foreign currency risk by regularly monitoring the net foreign currency earnings against current exchange rates to GBP. Additionally any changes to budgeted earnings figures are also taken into account. Where required, hedging action is undertaken and a report on the outstanding positions and valuations is presented to the management at each month end.

Monetary assets and liabilities by major foreign currency at the balance sheet date:

|              | Monetary liabilities |               | Monetary assets |               |
|--------------|----------------------|---------------|-----------------|---------------|
|              | 2012<br>£'000        | 2011<br>£'000 | 2012<br>£'000   | 2011<br>£'000 |
| US Dollar    | 270,776              | 202,889       | 189,995         | 214,660       |
| Euro         | 12,682               | 53,162        | 56,650          | 11,521        |
| Japanese Yen | 1,094                | 723           | 3,249           | 2,873         |

#### (i) Foreign currency sensitivity analysis

The following table shows the company's sensitivity to a 10% increase and decrease in Sterling against the relevant foreign currencies. The sensitivity analysis demonstrates the impact to the company profit and loss as the result of the change in foreign currency exchange rate based on the earnings and the value of foreign currency monetary assets and liabilities shown above.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 20. Derivatives and financial instruments (continued)

#### Foreign currency risk management (continued)

##### (i) Foreign currency sensitivity analysis (continued)

Sensitivity analysis profit/(loss) impact:

|                            | 10% weakening in £<br>against other currency |                | 10% weakening in £<br>against other currency |                |
|----------------------------|--|----------------|--|----------------|
|                            | 2012<br>£'000                                | 2012<br>£'000  | 2011<br>£'000                                | 2011<br>£'000  |
|                            | On net<br>monetary<br>items                  | On<br>earnings | On net<br>monetary<br>items                  | On<br>earnings |
| US Dollar                  | (8,976)                                      | 1,734          | 1,308  | 2,185          |
| Euro                       | 4,397  | 52             | (4,164)                                      | 222            |
| Japanese Yen               | 239  | 530            | 239  | 525            |
| Total impact (loss)/profit | <u>(4,340)</u>                               | <u>2,316</u>   | <u>(2,617)</u>                               | <u>2,932</u>   |

For a 10% strengthening of Sterling against the relevant currency, there would be an almost equal and opposite impact on the earnings.

##### (ii) Currency risk exposure

The company utilises currency derivatives to hedge significant future transactions and cash flows. The company is a party to a variety of foreign currency forward contracts in the management of its exchange rate exposure. The instruments purchased are primarily denominated in the currencies of the commodity or the market place that the physical transaction takes place in.

At the balance sheet date, total notional amount of outstanding forward foreign exchange contracts that the company has committed to are as below.

|               | GBP<br>£'000   | USD<br>£'000  | EUR<br>£'000  |
|---------------|----------------|---------------|---------------|
| 31 March 2012 | <u>154,629</u> | <u>83,628</u> | <u>22,783</u> |
| 31 March 2011 | <u>95,757</u>  | <u>76,622</u> | <u>57,806</u> |

These arrangements are designed to address significant exchange exposures that the company has for contracted commitments. The vast majority are due to mature within one to six months of the balance sheet date. A very small number extend beyond then, the latest one maturing in November 2013.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 20. Derivatives and financial instruments (continued)

#### Foreign currency risk management (continued)

##### (ii) Currency risk exposure (continued)

At 31 March 2012 the fair value of the company's currency derivatives is estimated to be a net asset of £554,000 (2011: net liability of £1,485,000). These amounts are based on market values of equivalent instruments at the balance sheet date comprising £554,000 (2011: £1,485,000) relating to booked transactions, being accounts receivable and short-term borrowing and this year the amount of effective cash flow hedges which have been deferred in equity was £1,000 (2011: minimal) as discussed above under hedge accounting.

Listed below are the exchange rate ranges used in calculating the fair value as at 31 March 2012 for the key currencies held as derivatives.

|                       |                 |                         |
|-----------------------|-----------------|-------------------------|
| US Dollars – Euro     | 1.3289 – 1.3339 | (2011: 1.3955 – 1.4069) |
| US Dollars – Sterling | 1.5843 – 1.5851 | (2011: 1.5964 – 1.5974) |
| Sterling – Euro       | 0.8384 – 0.8387 | (2011: 0.8806 – 0.8807) |

The company also acts as agent for its fellow subsidiaries and parent company in contracting foreign exchange forward contracts. These foreign exchange contracts are not included on the company's balance sheet on the basis that the company is only acting as agent and does not carry any risk or reward in such instruments other than the fixed agency commission that is recognised as income as earned. The fair value of such contracts as at 31 March 2012 was a gain of £40,878,240 (2011: loss of £20,649,000).

#### Interest rate risk management

The company is exposed to interest rate risk given its underlying financing requirements. There are two aspects of interest rate risk:

1. risk arising from possible mismatch of fixed interest rate bearing assets and liabilities; and
2. risk arising from possible mismatch of floating interest versus fixed rate assets and liabilities.

The company's treasury policy sets out operational guidelines with respect to interest rate risk management. Interest rate gaps are monitored on a regular basis and hedging action is undertaken if the gaps conflict with the company's interest rate view and is material. Longer-term material assets over one year are normally systematically hedged either by matched funding or interest rate swaps.

##### (i) Interest rate swaps

From time to time the company uses interest rate swaps to manage its exposure to interest rate movements on its borrowings. As at 31 March 2012 the company has no outstanding interest rate swaps contracts (2011: £Nil).

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 20. Derivatives and financial instruments (continued)

#### Interest rate risk management (continued)

##### (ii) Interest rate risk

Interest rate risk is split into two different types of risks – cash flow interest rate risk and fair value interest rate risk.

Cash flow interest rate risk is the risk that the future cash flows of financial instruments will fluctuate because of changes in market interest rates. As the company has variable rate bank deposits and debt, it is exposed to cash flow interest rate risk.

Fair value interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in market interest rates. Most of the financial assets and liabilities carry interest at variable rates and as a result management is of the opinion that fair value interest rate risk is not significant.

The only significant interest bearing receivables or payables that the company has are loans. In order to manage cash flow interest rate risk and fair value cash flow risk the company has a policy to ensure that where fixed or floating rate loans are made the funding for them is secured on the same basis. The company does not use derivative instruments to hedge against interest rate risk.

The table below summarises the contractual maturity dates of the company's financial instruments, from the year end, which are exposed to cash flow interest rate risk.

| As at 31 March 2012   | Less than<br>one year | Between<br>one and<br>two years | Between<br>two and<br>five years | More<br>than five<br>years | Non-<br>interest<br>bearing | Total   |
|---|-----------------------|---------------------------------|----------------------------------|----------------------------|-----------------------------|---------|
|   | £'000                 | £'000                           | £'000                            | £'000                      | £'000                       | £'000   |
| <b>Assets:</b>  |                       |                                 |                                  |                            |                             |         |
| Cash at bank and in hand  | 1,511                 | -                               | -                                | -                          | -                           | 1,511   |
| Loans to third parties  | 7,403                 | -                               | -                                | -                          | -                           | 7,403   |
| Amounts owed by parent company<br>and fellow subsidiary<br>undertakings | 87,821                | -                               | -                                | -                          | 108,180                     | 196,001 |
| Amount owed by associates   | 4,040                 | -                               | 2,671                            | -                          | 99                          | 6,810   |
| <b>Liabilities:</b>   |                       |                                 |                                  |                            |                             |         |
| Bank loans and overdrafts   | 12,551                | -                               | -                                | -                          | -                           | 12,551  |
| Amounts owed to parent company<br>and fellow subsidiary<br>undertakings | 217,690               | -                               | 2,672                            | -                          | 68,170                      | 288,532 |



# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 20. Derivatives and financial instruments (continued)

#### Interest rate risk management (continued)

##### (ii) Interest rate risk (continued)

| As at 31 March 2011   | Less than<br>one year | Between<br>one and<br>two years | Between<br>two and<br>five years | More<br>than five<br>years | Non-<br>interest<br>bearing | Total   |
|---|-----------------------|---------------------------------|----------------------------------|----------------------------|-----------------------------|---------|
|   | £'000                 | £'000                           | £'000                            | £'000                      | £'000                       | £'000   |
| Assets:   |                       |                                 |                                  |                            |                             |         |
| Cash at bank and in hand  | 2,389                 | -                               | -                                | -                          | -                           | 2,389   |
| Loans to third parties  | 8,328                 | -                               | -                                | -                          | -                           | 8,328   |
| Amounts owed by parent company<br>and fellow subsidiary<br>undertakings | 21,346                | -                               | -                                | -                          | 145,601                     | 166,947 |
| Amount owed by associates   | 5,669                 | -                               | 3,028                            | -                          | 108                         | 8,805   |
| Liabilities:  |                       |                                 |                                  |                            |                             |         |
| Bank loans and overdrafts   | 19,065                | -                               | -                                | -                          | -                           | 19,065  |
| Amounts owed to parent company<br>and fellow subsidiary<br>undertakings | 162,240               | -                               | 3,028                            | -                          | 95,760                      | 261,028 |

Contracted interest rates on cash at bank and deposit placed range from nil% to 0.50%.

Contracted interest rates on loans to third parties and amounts owed by parent company and fellow subsidiary undertakings range from Libor +0.50% to Libor + 0.60%.

Contracted interest rates on bank loans and amounts owed to parent company and fellow subsidiary undertakings range from Libor -0.25% to Libor +1.00%.

The directors are of the opinion that the above contracted interest rates are a fair approximation of the effective interest rates as at 31 March 2012.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 20. Derivatives and financial instruments (continued)

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

|  | 2012             |                  |                  |                |
|--|------------------|------------------|------------------|----------------|
|  | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
| <b>Financial assets at FVTPL</b>           |                  |                  |                  |                |
| Derivative financial assets                | -                | 9,102            | -                | 9,102          |
| <b>Available-for-sale financial assets</b> |                  |                  |                  |                |
| Unquoted equities                          | -                | -                | 8,199            | 8,199          |
| <b>Total</b>                               | <b>-</b>         | <b>9,102</b>     | <b>8,199</b>     | <b>17,301</b>  |
| <b>Financial liabilities at FVTPL</b>      |                  |                  |                  |                |
| Derivative financial liabilities           | -                | 2,195            | -                | 2,195          |
| <b>Total</b>                               | <b>-</b>         | <b>2,195</b>     | <b>-</b>         | <b>2,195</b>   |
|  |                  |                  |                  |                |
|  | 2011             |                  |                  |                |
|  | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
| <b>Financial assets at FVTPL</b>           |                  |                  |                  |                |
| Derivative financial assets                | -                | 1,693            | -                | 1,693          |
| <b>Available-for-sale financial assets</b> |                  |                  |                  |                |
| Unquoted equities                          | -                | -                | 6,988            | 6,988          |
| <b>Total</b>                               | <b>-</b>         | <b>1,693</b>     | <b>6,988</b>     | <b>8,681</b>   |
| <b>Financial liabilities at FVTPL</b>      |                  |                  |                  |                |
| Derivative financial liabilities           | -                | 23,465           | -                | 23,465         |
| <b>Total</b>                               | <b>-</b>         | <b>23,465</b>    | <b>-</b>         | <b>23,465</b>  |

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 20. Derivatives and financial instruments (continued)

#### Reconciliation of Level 3 fair value measurements of financial assets:

|   | Available-for-sale<br>Unquoted equities |              |
|---|---|--------------|
|   | 2012                                    | 2011         |
|   | £'000                                   | £'000        |
| Opening balance   | 6,988                                   | 5,998        |
| Total gains or losses:  |   |              |
| - fair value movement in statement of total recognised gains and losses | (13)                                    | (198)        |
| - purchases less disposals  | 1,224                                   | 1,188        |
| Closing balance   | <u>8,199</u>                            | <u>6,988</u> |

The table above only includes financial assets. There were no financial liabilities subsequently measured at fair value on Level 3 fair value measurement bases. All gains and losses included in statement of total recognised gains and losses relate to unquoted equities held at the balance sheet date and are reported as fair value movement in investment (note 12).

#### Liquidity risk management

The financing requirements of the company are predominantly short-term in nature and therefore liquidity management is one of the key risks that the company faces. The company manages its financing requirement and hence its liquidity risk with the aid of a cash-flow forecast that is continuously updated to reflect the actual requirement in each currency. Where appropriate the company seeks to match the duration of liabilities to the underlying assets so as to minimise liquidity risk.

The company meets its financing requirements mainly through a combination of inter-group loans and reserves. The company also has access to uncommitted facilities from a range of banks.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 20. Derivatives and financial instruments (continued)

#### Liquidity risk management (continued)

An analysis of the liquidity profile of the company's financial liabilities is as follows:

|                           | Within<br>one year<br>£000 | Between<br>one and<br>two years<br>£000 | Between<br>two and<br>five years<br>£000 | Total<br>£000    |
|---------------------------|----------------------------|---|--|------------------|
| <b>2012</b>               |                            |   |  |                  |
| Bank loans and overdrafts | (12,551)                   | -                                       | -  | (12,551)         |
| Other loans               | (217,690)                  | -                                       | (2,672)                                  | (220,362)        |
| Related interest          | (350)                      | -                                       | (15)                                     | (365)            |
| Trade and other payables  | (108,702)                  | (3,300)                                 | (119)                                    | (112,121)        |
| Derivative liabilities    | (2,121)                    | (74)                                    | -  | (2,195)          |
| <b>Total</b>              | <b>(341,414)</b>           | <b>(3,374)</b>                          | <b>(2,806)</b>                           | <b>(347,594)</b> |
|                           |                            |   |  |                  |
|                           | Within<br>one year<br>£000 | Between<br>one and<br>two years<br>£000 | Between<br>two and<br>five years<br>£000 | Total<br>£000    |
| <b>2011</b>               |                            |   |  |                  |
| Bank loans and overdrafts | (19,065)                   | -                                       | -  | (19,065)         |
| Other loans               | (162,240)                  | -                                       | (3,028)                                  | (165,268)        |
| Related interest          | (166)                      | -                                       | (19)                                     | (185)            |
| Trade and other payables  | (136,033)                  | -                                       | -  | (136,033)        |
| Derivative liabilities    | (23,465)                   | -                                       | -  | (23,465)         |
| <b>Total</b>              | <b>(340,969)</b>           | <b>-</b>                                | <b>(3,047)</b>                           | <b>(344,016)</b> |

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 21. Pension scheme

#### Defined benefit scheme

The Mitsubishi Corporation Retirement Benefits Scheme ("the defined benefit scheme") is a funded defined benefit pension scheme operated for the benefit of the employees of Mitsubishi Corporation International (Europe) Plc.

The charge for the year in the profit and loss account represents the current service cost, interest cost and expected return on assets as measured through the actuarial valuation for the year.

An actuarial valuation is performed every three years, the latest as at 1 April 2009. This revealed a funding deficit versus the Technical Provision that was covered by a Recovery Plan that resulted in company contributions to the Scheme as follows: "special contributions" in a fixed amount of £101,000 per month from 1 June 2007 to 31 March 2009, £97,422 from 1 April 2009 to 30 November 2010 and £95,593 from 1 December 2010 to 31 March 2012. In addition "one-off" contributions of £2,250,000 were made in April 2010 and £34,000 in December 2010. The Recovery Plan completed in March 2012 and from April 2012 the company is only paying the standard contribution rate.

The "Standard Contribution Rate" was 29.3% of basic salary from 1 June 2007 to 30 November 2010 and 25.8% from 1 December 2010 onwards.

A new actuarial valuation will be performed as at 1 April 2012.

The pension charge for the period in respect of employees was £1,496,156.

An interim valuations for this reporting period (for accounting purposes) was carried out by a qualified actuary. The major assumptions used for this valuation were:

|  | 2012  | 2011  |
|--|-------|-------|
| Discount rate (pre and post retirement)  | 4.85% | 5.45% |
| Rate of increase in salaries   | 4.50% | 3.25% |
| RPI price inflation  | 3.50% | 3.25% |
| CPI price inflation  | 2.30% | -     |
| Rate of increase for pensions in payment (LPI minimum 3% pa where CPI is used from April 2011) | 3.35% | 3.40% |
| Rate of increase for pensions in deferment   | 2.30% | 2.50% |
| Expected Return on scheme assets   | 2.97% | 4.04% |
| Life expectancy at age 60:   |       |       |
| Current pensioners   |       |       |
| - Men  | 28.0  | 28.0  |
| - Women  | 29.4  | 29.4  |
| Future pensioners now aged 40  |       |       |
| - Men  | 29.2  | 29.1  |
| - Women  | 30.5  | 30.5  |

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 21. Pension scheme (continued)

#### Defined benefit scheme (continued)

Based on the above assumptions the surplus/(deficit) in the scheme at each assessment date was:

|   | 2012<br>£'000 | 2011<br>£'000 |
|---|---------------|---------------|
| Fair value of scheme assets                                       | 47,166        | 39,427        |
| Value of Insured annuities  | 326           | 481           |
| Total Value of scheme assets                                      | 47,492        | 39,908        |
| Present value of funded obligations (including insured annuities) | (35,929)      | (30,775)      |
| Surplus in the scheme   | 11,563        | 9,133         |
| FRS 17 limit on surplus recognition                               | (9,084)       | (7,420)       |
| Pension asset recognised  | 2,479         | 1,713         |
| Related deferred tax liability                                    | (595)         | (445)         |
| Net pension asset   | 1,884         | 1,268         |

The fair value of the scheme's invested assets at the beginning and at the end of the period are set out below along with the expected rate of return for each class at each assessment date:

|              | Value at<br>31 March<br>2012<br>£'000 | Expected<br>return<br>% p.a. | Value at<br>31 March<br>2011<br>£'000 | Expected<br>return<br>% p.a. |
|--------------|---------------------------------------|------------------------------|---------------------------------------|------------------------------|
| Bonds        | 43,024                                | 3.15                         | 35,359                                | 4.35                         |
| Cash         | 4,142                                 | 0.95                         | 4,068                                 | 1.35                         |
| <b>Total</b> | <b>47,166</b>                         | <b>2.96</b>                  | <b>39,427</b>                         | <b>4.04</b>                  |

Total expense recognised in profit and loss

|  | 2012<br>£'000 | 2011<br>£'000 |
|--|---------------|---------------|
| Current service cost                     | 234           | 287           |
| Interest on pension scheme liabilities   | 1,664         | 1,718         |
| Expected return on pension scheme assets | (1,628)       | (1,585)       |
| Total expense                            | 270           | 420           |

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 21. Pension scheme (continued)

#### Defined benefit scheme (continued)

Annual return on scheme assets:

|                                | 2012<br>£'000 | 2011<br>£'000 |
|--------------------------------|---------------|---------------|
| Actual return on scheme assets | 7,115         | 2,034         |

Changes in the present value of the defined benefit obligation are as follows:

|                                    | 2012<br>£'000 | 2011<br>£'000 |
|------------------------------------|---------------|---------------|
| Opening defined benefit obligation | 30,775        | 30,799        |
| Current service cost               | 234           | 287           |
| Employee contributions             | 81            | 81            |
| Interest cost                      | 1,664         | 1,718         |
| Actuarial losses/(gains)           | 4,298         | (1,143)       |
| Benefits paid                      | (1,123)       | (967)         |
| Closing defined benefit obligation | 35,929        | 30,775        |

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

|                                     | 2012<br>£'000 | 2011<br>£'000 |
|-------------------------------------|---------------|---------------|
| Opening fair value of Scheme assets | 39,908        | 34,966        |
| Expected return                     | 1,628         | 1,585         |
| Sponsor contributions               | 1,511         | 3,794         |
| Employee contribution               | 81            | 81            |
| Actuarial gains                     | 5,487         | 449           |
| Benefits paid                       | (1,123)       | (967)         |
| Closing fair value of scheme assets | 47,492        | 39,908        |

# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts Year ended 31 March 2012

### 21. Pension scheme (continued)

#### Defined benefit scheme (continued)

Analysis of recognised loss in statement of total recognised gains and losses (STRGL):

|   | 2012<br>£'000 | 2011<br>£'000 |
|---|---------------|---------------|
| Actual return less expected return on pension scheme assets                   | 5,487         | 449           |
| Experience gains and losses arising on the scheme liabilities                 | (123)         | 391           |
| Changes in assumptions underlying the present value of the scheme liabilities | (4,175)       | 752           |
| FRS 17 limit on surplus recognition   | (1,664)       | (5,801)       |
|   | (475)         | (4,209)       |
| Deferred tax  | 114           | 1,094         |
| Actuarial loss recognised in STRGL  | (361)         | (3,115)       |

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since the adoption of FRS 17 is a loss of £3,626,000 (2011: loss of £3,265,000).

The company's best estimate of the contributions to be paid in respect of the scheme during the financial year ending 31 March 2013 is £370,000.

History of experience gains and losses

Details of experience gains and losses for the year to:

|   | 2012<br>£'000 | 2011<br>£'000 | 2010<br>£'000 | 2009<br>£'000 | 2008*<br>£'000 |
|---|---------------|---------------|---------------|---------------|----------------|
| Experience gains and losses on scheme liabilities:                        |               |               |               |               |                |
| Amount (£'000)  | (123)         | 391           | (1,075)       | (162)         | 189            |
| Percentage of the present value of the scheme liabilities                 | (0.3%)        | 1.3%          | (3.5%)        | (0.7%)        | 0.7%           |
| Difference between the expected and actual return on scheme assets:       |               |               |               |               |                |
| Amount (£'000)  | 5,487         | 449           | 1,466         | (560)         | (389)          |
| Percentage of scheme assets   | 11.6%         | 1.1%          | 4.2%          | (1.8%)        | (1.3%)         |
| Total amount recognised in statement of total recognised gains or losses: |               |               |               |               |                |
| Amount (£'000)  | (475)         | (4,209)       | (2,078)       | (239)         | 2,108          |
| Percentage of the present value of the scheme liabilities                 | (1.3%)        | (13.7%)       | (6.7%)        | (1.0%)        | 7.6%           |

\* This relates to the period from 31 October 2007 to 31 March 2008.

The company also operates a defined contribution scheme which began on 1 April 2002. The charge for the year (being the contributions made by the company) was £423,310 (2011: £374,845). No amounts were accrued or prepaid as at 31 March 2012.



# Mitsubishi Corporation International (Europe) Plc

## Notes to the accounts

### Year ended 31 March 2012

#### 22. Immediate and ultimate parent company

In the opinion of the directors, the company's ultimate parent company and controlling entity is Mitsubishi Corporation, a company incorporated in Japan. This is the smallest and largest group in which the company is consolidated. The immediate parent company is MC Europe Holdings NV.

Copies of the group financial statements of the ultimate parent company can be obtained from Mitsubishi Corporation, Department PC-B, 3-1 Marunouchi 2-Chome, Chiyoda-ku, Tokyo 100-8086, Japan and are also available on Mitsubishi Corporation's website ([www.mitsubishicorp.com](http://www.mitsubishicorp.com)). The immediate parent company does not prepare group financial statements.

#### 23. Related party transactions

At 31 March 2012 £4,139,000 and £2,671,000 were owed by Deucalion MC Engine Leasing Ltd (DMCELL), the company's associated company (note 12) as short-term and long-term receivables (note 14). The company has recognised interest income of £449,000 (note 7).

The company has taken advantage of the exemption from other related party disclosures available in Financial Reporting Standard No.8 - Related Party Disclosures, as the consolidated financial statements of the ultimate parent company are publicly available as noted above.

#### 24. Equity dividends

Amounts recognised as distributions to equity holders in the year:

|  | 2012<br>£'000 | 2011<br>£'000 |
|--|---------------|---------------|
| Interim dividend for year ended 31 March 2011 of £7.17m (2010: £7.67m) | 7,168         | 7,666         |
| Final dividend for year ended 31 March 2011 of £7.17m (2010: £7.67m)   | 7,168         | 7,666         |
|  | <u>14,336</u> | <u>15,332</u> |